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JAPAN
Shocks to the corporate system
Section III

World News

Mitterrand joins forces against Iraqi nuclear sites

President François Mitterrand warned Iraq that France would join the US in any fresh military action if Baghdad failed to give full details of its nuclear programme.

His remarks follow a similar warning last week from Mr John Major, the British prime minister, and align the US, Britain and France, the main prosecutors of the Gulf war against Iraq, in a possible further military strike against suspected Iraqi nuclear sites. Page 16; Gulf states meet, Page 3

Start treaty close
The US and Soviet Union were "very close" to negotiating the Start treaty to reduce long-range nuclear weapons on both sides as negotiators entered their fourth day of intensive talks. Page 16

Peace accord threatened
Renewed violence between Croats and Serbs put in jeopardy the memorandum to implement the Brioni peace accord, agreed on Saturday night. Three policemen were reported injured in a gun battle between Croats and Serbs near Zagreb, the Croatian capital. Page 16

China floods worsen
Water levels in all big rivers in eastern China continued to rise, with more torrential rain forecast for some of the areas hit hardest by floods. Eighteen of its 30 provinces are affected, and more than 1,000 people have died. Page 16; China warns, Page 3

Cambodia hopes
Leaders of the four Cambodian factions arrived in China's capital, Beijing, for a two-day meeting of Cambodia's Supreme National Council. Diplomats were hailing the talks as the best hope for peace in 12 years of Cambodia's civil war. Page 3

Israel lifts sanctions
Israel's cabinet, following the lead of the United States, voted unanimously on Sunday to lift economic sanctions against South Africa. Page 3

Seven die in S Africa
Four people were shot dead and a fifth was burned to death in Johannesburg's black townships of Tembisa and Alexandria in a weekend of violence. Two people also died and five others were wounded in the eastern province of Natal.

Earthquake strikes
An earthquake measuring 6.6 on the Richter scale shook a region on the border of Afghanistan and the Soviet Union. There were no early reports of damage or casualties.

Kurds kill nine
Kurdish rebels fighting for a separate state in the southeast of Turkey, killed nine people, five of them children, in gun and grenade attacks, bringing the death toll in the area to more than 100 since the beginning of June.

Greek bomb blast
A bomb blast in the northern Greek city of Salonika caused serious damage to the offices of the German airline Lufthansa and injured an employee of a nearby restaurant.

Volcano buries 40
More than 40 tribespeople sheltering in mountain caves in the Philippines were buried alive by volcanic debris, bringing the death toll to 435 people since the eruption of Mount Pinatubo began on June 9.

Mansell wins
Briton Nigel Mansell won the British Grand Prix at Silverstone, seven day after his victory in France.

Business Summary

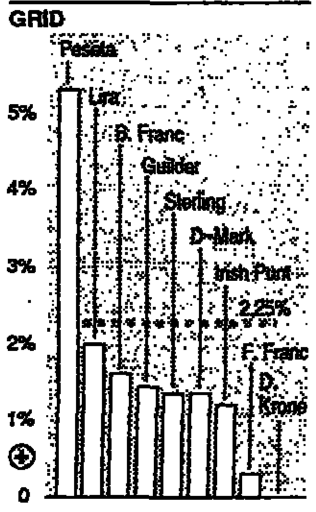
Usinor tests cost-saving steel process in France

USINOR SACILOR, Europe's biggest steel maker, has begun production trials in France using thin-strip casting technology which could transform the industry's economics.

The process, also being developed by Japan's Nippon Steel, could give the French state-owned group an important technological lead in Europe, where producers are trying to cut costs by streamlining the complex traditional steelmaking process. Page 17

EUROPEAN monetary system: Sterling rode out Friday's cut in UK bank base rates because June's rather disappointing retail prices index, published the same day, led to speculation that further rate reductions might be delayed. The pound moved to the middle of the exchange rate mechanism, above the D-Mark. Thursday's Bundesbank decision not to raise official German interest rates helped to keep trading calm.

EMS GRID July 12, 1991



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

HANSON, UK-based conglomerate, has its sights on a £2bn ($3.2bn) slice of ICI's pharmaceutical subsidiary. Chairman Lord Hanson is said to favour a 40 per cent stake. Page 17

PHILIPS, Dutch electronics group, is set to inject at least BFr3.5bn ($95m) into Super Club, its 51 per cent owned loss-making Belgian video rental company. Page 19

COMMONWEALTH Bank, Australian state-owned bank in a A$1.29bn (US$980m) public flotation, has won solid underwriting support from institutions and brokers. Page 19

STANDARD & POORS, US credit rating agency, downgraded the claim-paying ability ratings on UK insurers Sun Alliance, Legal & General, General Accident, Royal Insurance and Eagle Star. Page 19

ROSEHAUGH and STANHOPE, UK property companies with big assets in a joint company, will today confirm that they are in merger talks. Canada's Olympia & York holds significant stakes in both. Page 17

VIDEO-PHONES:Leading European telecoms companies agreed to co-operate in developing video-telephones for business use by 1993. Signatories include British Telecom, Deutsche Bundespost, France Telecom, Norwegian Telecom and PTT Telecom (Netherlands).

INDIAN AIRLINES, India's domestic carrier, is to spend $2bn on replacing much of its fleet, with plans to buy 53 new aircraft over 10 years.

Gates 'less than candid' says former Customs chief

CIA may have stalled global probe of BCCI

By Alan Friedman, Lionel Barber and Tara Sonenshine in Washington

US GOVERNMENT agencies – including the Central Intelligence Agency – may have impeded the international investigation of the Bank of Commerce and Credit International (BCCI), the Abu Dhabi-based bank that was shut down ten days ago after discoveries of widespread fraud.

Former and current senior federal officials blame the US Justice Department, the Treasury, the CIA and the Federal Reserve as well as the Bank of England for dragging their feet in response to requests for information and assistance in the BCCI investigation.

Mr William von Raab, the former US Commissioner of Customs, told the Financial Times and ABC News/Nightline yesterday that Mr Robert Gates, President George Bush's nominee as CIA director, *appeared to have been "less than candid"* about the bank's relationship with the intelligence agency shortly before the indictments of 84 individuals linked to the laundering of drug money by a BCCI subsidiary in Florida.

Mr von Raab's complaints about official stonewalling have been echoed by Mr Robert Morgenthau, the New York district attorney who for several months has vented his frustration at the lack of co-operation he has received from the Fed and the Bank of England.

Congressional criticism is also mounting over the reluctance of US authorities to take early action over BCCI.

Mr von Raab said Mr Gates described BCCI as "the Bank of Crooks and Criminals International" during a telephone conversation in October 1988.

"I thought this was the biggest case Customs had ever worked on," Mr von Raab said. "I asked Mr Gates for information on BCCI and what I received was well written pablum. It was of no value. It was information that was largely publicly available."

Several weeks later, Mr von Raab discovered from British Customs agents in London that the CIA actually used the bank to make payments to individuals involved in clandestine CIA operations around the world.

"If there was any material relationship between the CIA and the bank then Mr Gates misled me. If the allegations I've heard about the agency's involvement with the bank are true then what he gave me was deceptive," Mr von Raab said.

Mr von Raab said that throughout the US Customs investigation of BCCI there was "a distinct lack of enthusiasm" on the part of the US Treasury and the Department of Justice.

The CIA routinely uses US and foreign banks to channel funds for its operations. The issue facing US investigators is whether the CIA's use of BCCI went beyond routine transactions transactions and involved large-scale clandestine operations such as the covert financing of the Afghan rebels.

The CIA said *last* night: "Any allegations of unlawful use of BCCI by the agency are without foundation."

Federal investigators are also looking at the use of BCCI in financial transactions connected to the 1985 Iran-Contra arms-for-hostages scandal. Two of the major figures involved in Iran-Contra – Mr Adnan Khashoggi, the Saudi arms dealer, and Mr Manucher Ghorbanifar, the Iranian intermediary – channelled several million dollars through a BCCI account in Monte Carlo, according to documents obtained by a joint FT/ABC investigation.

The nomination of Mr Gates as CIA director has run into trouble because of fresh evidence pointing to an official cover-up of CIA knowledge and involvement in Iran-Contra.

The Senate Intelligence Committee is investigating new allegations that Mr Gates was personally involved in a major covert operation by the CIA that funnelled US weapons technology to Iraq by way of Chile during the 1980s.

According to a former CIA employee, Mr Gates supervised the shipment of US cluster bomb, fuel air explosive and other technologies to Mr Carlos Cardoen, the Chilean arms dealer, who then used it to manufacture arms that were sold to Iraq.

The White House has denied that Mr Gates was involved in any covert Iraqi arms shipments and said at the weekend Mr Gates never met Mr Cardoen. But the former CIA operative told the FT/ABC investigation he was present with Mr Gates and Mr Cardoen at a meeting in Florida in 1986.

Mr Gates, deputy national security adviser to President Bush, finds himself at the centre of a growing controversy about his activities at the CIA. Mr Bush, however, has vigorously defended his nomination of Mr Gates.

Robert Gates, pictured left with President George Bush, who has nominated him as CIA director, "failed to disclose" involvement in BCCI

BCCI receivers refused access to key report

The receivers of the two largest operating companies in the Bank of Credit and Commerce International group have been forbidden access to the damning Price Waterhouse report which led to the closure of the scandal-ridden bank. As a result, they have been been left to piece together from *scratch one of the most complex financial frauds ever*. The receivers, from Deloitte Ross Tohmatsu, will also face difficulties in determining the bank's financial position before deciding whether it should be wound up. Details, Page 6

G7 criticism of Gorbachev reform plans

By Peter Norman, Philip Stephens, John Lloyd and Anthony Robinson in London

Gorbachev dominates from a distance
France opposes wider role for summit
Japan seeks pact against continental Europe
Profiles of the key players . Page 2
Global savings shortage ..... Page 6
Editorial comment ..Page 14

PRESIDENT Mikhail Gorbachev's latest plan to reform the Soviet economy ran into *serious problems last night* as it drew an unenthusiastic response from a majority of the Group of Seven summit countries and was criticised by one of the Soviet leader's own advisers.

Mr Grigory Yavlinsky, main author of a radical reform plan involving western assistance, drawn up with the help of US experts at Harvard University, said yesterday in Moscow that he would not travel to London with Mr Gorbachev as he had been invited to do.

In London yesterday, Mr John Major, the British prime minister, and Mr Brian Mulroney, his Canadian counterpart, expressed disappointment with the 23-page letter outlining the plan that was sent last week by the Soviet president to the leaders of the US, Japan, Germany, France, Britain, Italy and Canada.

Mr Toshiki Kaifu, Japan's prime minister, who also met Mr Major, is also understood to feel that it raised more questions than it answered and left unclear whether the Soviet leadership fully understands what is entailed in moving to a market-based economy.

Speaking at President George Bush's holiday home in Kennebunkport, Maine, Mr Brent Scowcroft, the president's national security adviser, complained that the letter did not lay out in detail Mr Gorbachev's economic programme.

Mr Yavlinsky's decision not to defend the Gorbachev programme publicly stems from his suspicion that it will incorporate too many elements from the Soviet government's anti-crisis plan, published last week.

Although that plan has changed significantly in recent weeks, it remains vague in important matters and relies on administrative measures to stimulate production in the short term.

Mr Major and Mr Mulroney expressed similar reservations about the contents of the Soviet letter. Mr Major said it was "clearly based on the Pavlov plan" – a proposal that British officials have already described as inadequate.

Mr Mulroney said he doubted whether the G7 would be able to respond to the Soviet proposals. "I do not believe that you will see either miracles or blank cheques from the G7 summit," he said.

The 23-page letter was delivered to Mr Major by Mr Evgeni Primakov, President Gorbachev's special envoy, on Friday, and distributed to other G7 leaders. While underlining the Soviet government's commitment to the political and institutional reforms needed for the transition to a market economy, it also called for understanding of the specific conditions in which the Soviet economy has operated up to now and the social risks involved in change.

But British officials yesterday complained that the Gorbachev proposals did not move far enough from the idea of the planned economy. They said the plan lacked practicalities. It appeared that the Soviet authorities had no idea of what was entailed in privatising industry.

The officials underlined that it would be very difficult talking to Mr Gorbachev about aid for the ailing Soviet economy in the the absence of a sensible plan.

However, not all G7 countries are expected to take such a hard line over support for the Soviet Union. The German and French leaders, neither of whom had arrived in London yesterday, want the summit to offer Mr Gorbachev political support and hold out the hope of financial assistance.

President Mitterrand sent a letter to his G7 counterparts arguing that the west should take a first step to aid President Gorbachev by increasing the finance available to Moscow through the European Bank for Reconstruction and Development.

Chancellor Helmut Kohl of Germany said he would try to persuade other summit leaders to help the Soviet Union in their own interest.

UK's Midland Bank had secret defence offshoot

By Richard Donkin, Jimmy Burns and John Plender in London

A TRADE finance arm of Midland Bank, one of whose subsidiaries had links with Britain's security services, incurred losses of at least £75m ($120m) over the past decade. The losses arose in part from undisclosed fraud at one of the trade offshoot's customers.

The subsidiary, Midland International Trade Services (MITS), also employed a team of retired military officers on defence business for four years apparently without the knowledge of the chief executive and other senior managers at the time the unit was set up.

Sir Kit McMahon, who retired early as the UK bank's executive chairman earlier this month, disbanded the defence unit late last year. Midland said this was because he felt that such business could be be handled in "simpler and more cost effective ways".

The existence of the losses within MITS and the closure of Midland's secretive *Defence Equipment Finance Department*, has emerged from detailed investigations by the Financial Times into a loosely knit group of companies whose ill-starred performance has never been fully revealed or explained to *Midland* shareholders.

The problems of Midland's international business were not confined to the disastrous acquisition of Crocker National Bank in California in the early 1980s. According to one insider, the full losses incurred earlier by MITS, and never disclosed in Midland Bank's annual report, may have come closer to £100m.

The losses are detailed in the small print of the accounts of MITS and its UK subsidiaries filed at Britain's Companies House. At their highest point in 1983, they reached £48m, equal to more than 20 per cent of Midland Bank's total pre-tax profits.

Yet they were not separately disclosed to Midland's shareholders, unlike the provisions at Crocker, of which Midland's attributable share amounted to £68m that year. Nor were the MITS losses quantified in Midland's annual 20-F filing with the US Securities and Exchange Commission, which contained a detailed explanation of Crocker's provisions.

Midland executives say disclosure of the losses was not a legal requirement at that time.

The trouble at MITS, as at Crocker, seems to have stemmed from a failure by Midland's top executives to exert control over an unorthodox subsidiary that operated with a surprising degree of autonomy within the Midland group. The initial management response to losses appears to have been less than rigorous.

The saga raises fundamental questions of accountability both within Midland Bank
Continued on Page 16

Tinker, Tailor, Soldier, Banker . . . Page 8

CONTENTS

THE MONDAY INTERVIEW

Alan Lord, chief executive of Lloyd's of London, firmly rejects talk of crisis at the insurance market, and suggests that the media has blown up what are, in essence, typical trading problems. Page 32

Japan: Tokyo's stock market is bracing itself for news of further corporate scandals. 15
G7: As the summit meets the world economy appears increasingly interconnected 17
Telecoms: Alcatel of France has raised its US profile by buying a division of Rockwell 18
Car industry: Do car buyers in the UK pay more than their European counterparts? 9
US banks: New proposals could restrict the activities of larger banks 4
BCCI: Could regulators in the Cayman Islands have acted more swiftly against the bank? 6
UK tax: Some fear that the new local tax may be just as unpopular as its predecessor 14

International	2-6	Businessman's Diary	12	Intl.Capital Markets	21	-Wall Street	22
Companies	19	Crossword	32	Letters	15	-London	27
Britain	9-10	Currencies	27	Management	11	UK Gilts	20
Companies	18	Editorial Comment	14	Monday Page	32	US Money and Credit	20
Arts-Reviews	13	International bonds	19	Money Markets	27	Unit Trusts	23-26
World Guide	13	Financial Diary	12	Observer	14	Weather	16
Building Contracts	12			Stock Markets	22		

FT SURVEYS THIS WEEK

Plant early for a Perennial Income : The summer edition of ***the FT Quarterly Review of Personal Finance*** looks at planning for retirement, at personal pensions, and charts the world's uncertain equity markets. It appears in Friday's FT, and is repeated on Saturday.

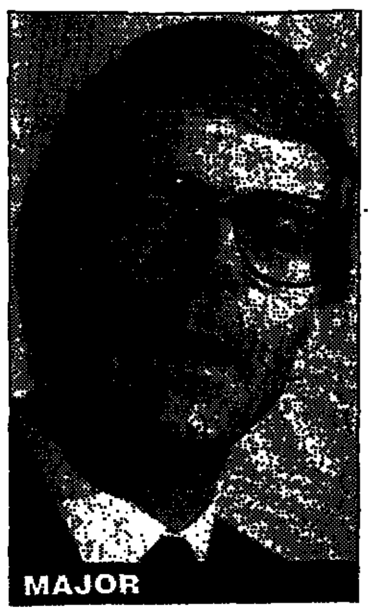
■ TODAY :
Japan : the country begins the nervous nineties with political, economic and financial shocks.

■ TUESDAY :
Gatwick Business Region : recession aside, the world's fourth busiest airport provides strong impetus to its hinterland.

■ WEDNESDAY :
European Finance & Investment: Part 7: Germany : angst for the average citizen.

■ FRIDAY & SATURDAY :
Quarterly Review of Personal Finance : *(see panel left.)* The Summer edition includes surveys on Residential Mortgages, and Personal Pensions.

G7 SUMMIT IN LONDON



MAJOR

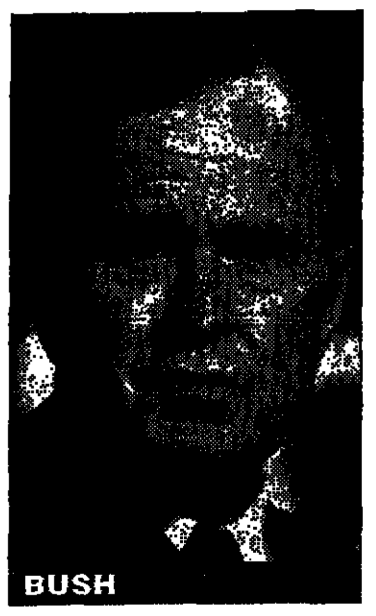
MR John Major, the British host, has set a series of modest but important goals, ranging from a commitment to completing this year the Uruguay Round of trade talks to the establishment of a new framework for relations with the Soviet Union.

He has set as the theme for the summit – "Building an international partnership" – a *phrase designed to encapsulate* aspirations for a new world order in the wake of the Cold War and the allied victory in the Gulf.

But for all the work that will go into drawing up communiqués on spreading the gospel of *free-market economics or on* re-establishing regional security in the Middle East, the most important objective for Mr Major is personal and political.

Just eight months into his job as prime minister and a year at most away from a general election, Mr Major has to demonstrate he can equal Mrs Margaret Thatcher on the world stage. She attended the previous 12 summits and in many of them had an influence far in excess *of Britain's diminishing status in* the west.

Mr Major is a novice who needs to demonstrate to his G7 partners and to his own electorate that he can do the same.



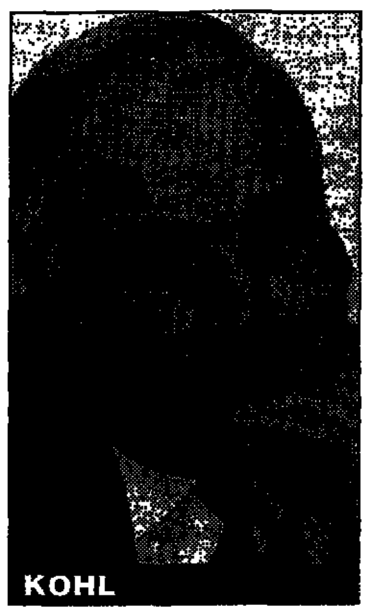
BUSH

PRESIDENT George Bush would like to see the G7 endorse a comprehensive growth strategy leading to lower real interest around the world, to stimulate recovery and assist reconstruction in central and eastern Europe, Latin America and the Middle East.

To this end he also wants to see a stronger commitment to *early completion of the Uruguay* Round and to the removal of structural rigidities which are hindering both trade and private-sector investment.

The US wants the offer of technical assistance to help Soviet economic reform to be accompanied by a strong emphasis on helping the countries of eastern and central Europe – *notably by giving them greater* access to western markets, as the US foreshadowed on Friday by raising quotas on steel and textile imports from these countries.

Mr Bush will seek, informally, backing for his tough line on the need for full inspection and destruction of Iraqi nuclear *facilities. More formally, he will* back calls for a tighter regime of non-proliferation of weapons of mass destruction in the Middle East and restraint in the sale of conventional weapons.



KOHL

CHANCELLOR Helmut Kohl of Germany travels to London with two inter-related ideas in mind. The first is to obtain fresh western support for Soviet political and economic reforms; the second *is to assure President Mikhail* Gorbachev that, in spite of the importance Bonn places on the relationship with Moscow, there will be no large infusion of aid *unless Mr Gorbachev delivers* results.

Mr Kohl has a greater interest in shoring up Mr Gorbachev's position than any other summit participant.

This *reflects a variety of factors:* the continued presence of 350,000 Soviet soldiers in east Germany, the threat of Soviet emigration *if chaos prevails, and the* chancellor's personal debt of gratitude towards the Soviet leader for agreeing to German unity last year.

But Mr Kohl does not want to *be singled out as an* over-credulous believer in Mr Gorbachev's potential to survive. His advisers also admit that Bonn has no money for glad-handing *gestures towards Mr Gorbachev.*

Bonn also intends to give a clear signal of support for a successful conclusion of the Gatt talks – where Germany has been dragging its feet.

MITTERRAND

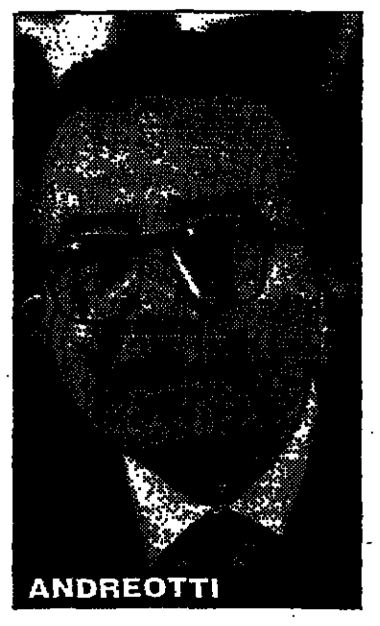
PRESIDENT François Mitterrand of France travels to the summit intent on alleviating the debts of Third World countries, offering western help for the economic development of the Soviet Union and unblocking the deadlock in Gatt.

The president will suggest the 33 per cent forgiveness of official debts agreed for the poorest *countries at the 1988 Toronto* summit should be extended to *at least 50 per cent.*

France also wants to see more middle-income countries benefit from the *50 per cent debt* forgiveness accorded to Poland and Egypt this year. Separately, it will push for the establishment of a development fund for Middle *East countries.*

Paris will also be pleading the cause of the Soviet Union and arguing for its admission as an associate member of the IMF, with the understanding that it will later *proceed to full membership.*

However, it is cautious on conditions for western aid for the Soviet Union and argues that future *assistance must coincide with an economic restructuring* plan drawn up by Soviet authorities. French officials are *not expecting* any large cheque to be given to Moscow immediately.



ANDREOTTI

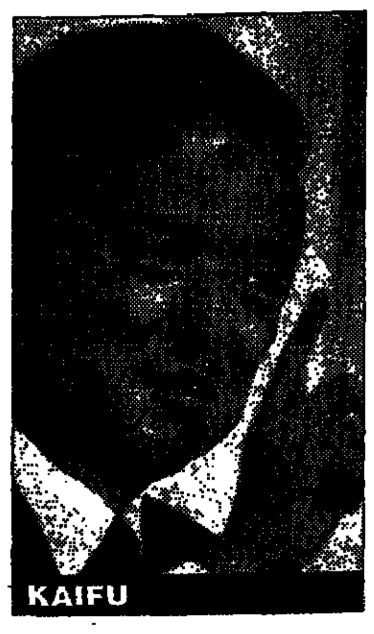
MR Giulio Andreotti, Italian prime minister, will focus on relations with the Soviet Union and, to a lesser extent, eastern Europe. His task will be to convince western partners to provide financial *aid to the Soviet* economy, but in such a way as to minimise the risk of inflation.

Aid should come via the International Monetary Fund and *the new European Bank of* Reconstruction and Development, *both of which should be given* expanded powers.

The political pre-condition, as *far as the Italians are concerned,* is that Soviet authorities establish conditions for greater internal political stability, based on a *treaty between the republics. The Italians* believe the Soviets must give the IMF a role in supervising the allocation and management of financial resources provided.

They will argue that financial help for the Soviet Union, if *handled carefully, will boost world* economic growth and international liquidity in general, without creating an inflationary spiral.

They expect the summit to *approve greater direct economic* aid to the Soviet economy and non-financial moves to boost trade. *The Italians think it would* be impossible to send Mr Gorbachev home empty-handed.



KAIFU

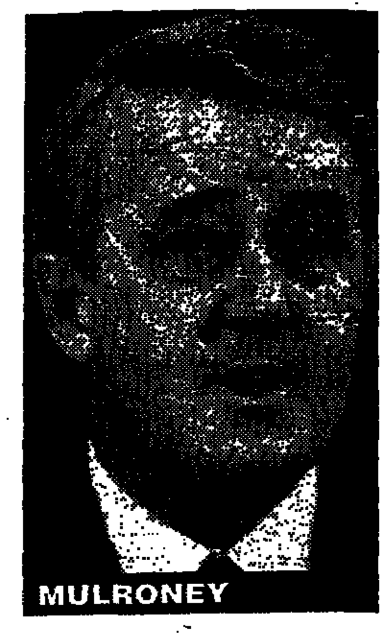
MR Toshiki Kaifu, Japanese premier, will aim to take a leading role in the debate on arms control and the *environment* and to urge caution in providing economic assistance to the Soviet Union.

On trade liberalisation,* Japanese officials have to balance the need to support open markets with the domestic political requirement to maintain a ban on *rice imports.

***Tokyo has targeted control of* the conventional arms trade as an issue on which its international political profile can be raised. *Mr Kaifu is expected to submit* a proposal that would call for increased monitoring of arms shipments.**

He will also point out that Japan has already changed its foreign aid policy to limit assistance to countries considered to be putting undue emphasis on military spending at the expense of economic development.

***Japan opposes economic* assistance to the Soviet Union, arguing that the Soviet military presence remains formidable in Asia. Mr Kaifu would also like other leaders to *recognise Japan's* claimed rights to the Northern Territories. At the same time, Japan is likely to offer assistance in converting Soviet military factories to civilian facilities.**



MULRONEY

MR Brian Mulroney, Canada's prime minister, will be hoping the G7 summit will go some way towards repairing his badly-battered image at home. An opinion poll earlier this month *showed that two-thirds of* Canadians would like him to quit.

Pet projects which Mr Mulroney will be pushing include an *international conference on* monitoring arms exports; preparations for next year's conference on the environment, *in Rio de Janeiro;* and a plea that aid donors should not forget needs of the Third World in the rush to help eastern Europe.

***While Mr Mulroney has been* persuaded of President Gorbachev's reformist credentials, *he does not favour the west loosening its purse strings* for Moscow just yet.**

As the world's third biggest wheat exporter, Canada is anxious *for a political endorsement from* G7 leaders for the successful completion of the Uruguay Round, *especially an agreement on farm subsidies.* On the broader economic *front,* Mr Mulroney will welcome support for the Bank of Canada's priority of holding down inflation, rather than promoting vigorous economic growth.

Hopes for involving group in talks with Moscow

France opposes wider role for G7 summits

By Peter Riddell, US Editor, in Washington

FRANCE is objecting to proposals to develop the Group of Seven annual summit into a framework for more frequent political co-ordination.

The dispute, which has wide-ranging implications for political discussions in the post-Cold War world, has not been resolved by sherpas, or leaders' personal representatives, at preliminary meetings, and has been left for the leaders.

The immediate focus is a call from Britain, among others, for some kind of follow-on procedure to handle the G7's continuing discussions with the Soviet Union about economic reform after this week's meeting between President Mikhail Gorbachev and the G7 leaders.

The G7 leaders accept that most of the detailed advice on Soviet economic restructuring will be handled by the International Monetary Fund and the World Bank. But some countries feel that, without creating new institutions and involving the G7 in too much, there is a need for a more formal way for the G7 to keep engaged with the Soviet Union.

This issue has become tied in with the broader question of the role of the G7. The finance ministers and central bank governors already have their regular meetings, at least four times a year, when interest rate and exchange rate questions are discussed.

The US, with backing from some other G7 participants, has been arguing for more frequent political co-ordination. This is partly aimed at involving Japan and Germany, as well as the EC, more closely in international political discussions, since they are not among the five permanent members of the United Nations Security Council.

Some G7 participants have welcomed this suggestion as a recognition of the more political role which the G7 has assumed on issues such as arms non-proliferation.

However, France has expressed strong reservations, fearing the creation of some form of political executive or directorate which might reduce the significance of other leadership initiatives.

This partly reflects the desire of France to preserve as much as possible of the spirit of the annual meetings which it pioneered in 1975.

In practice, the character of the G7 has already changed substantially, with not only much greater concentration on political issues but also the involvement of the president of the European Commission and the head of the EC government holding the presidency of the council of ministers.

● Philip Stephens adds: The G7 is set to signal that the United Nations will be given a much more prominent role as the world's "policeman" in the wake of the Gulf war.

Japan seeks pact against continental Europe

JAPAN hopes to forge a free-trade alliance with the US, Canada and Britain against continental Europe at the economic summit, according to senior Japanese government officials, writes Peter Norman.

The government in Tokyo has become increasingly frustrated at delay in concluding the Uruguay Round of trade liberalisation talks and is also deeply disturbed by moves in the European Community to limit access to continental markets of products made by British subsidiaries of Japanese companies.

It plans to make a vigorous defence of its trade policies at the summit and point out substantial concessions already made on the agricultural front.

The officials said Japan's soya industry had virtually disappeared as a result of trade liberalisation moves and its dependence on home-grown grains had fallen sharply. Japan has also opened more of its domestic market for beef and citrus to foreign suppliers.

Gorbachev dominates from afar

By Philip Stephens, Political Editor

THE ghost was presiding over the banquet even before western leaders had began tucking into their *hors d'oeuvres.*

As the limousines sped the world's capitalist statesmen (there are no women now that Mrs Margaret Thatcher has gone) to and from Downing Street yesterday, Mr Mikhail Gorbachev was 1,500 miles away in Moscow.

His invitation to sit at the edge of the west's top table is valid only from Wednesday, after the formal proceedings of the 17th world economic summit have drawn to a close.

The original plan, a British official confessed yesterday, was that the G7 leaders (joined by Mr Jacques Delors of the European Commission just to *make it complicated)* would bask in the media spotlight for a full two days before Mr Gorbachev was allocated a role.

Mr John Major and his counterparts would by then have hammered out a comprehensive communiqué on their chosen theme of "building an international partnership". Mr Gorbachev would be invited to share in their wisdom.

It has not worked out like that. He may not be here but the Soviet president is dominating the summit even before it has started. His western hosts are said to be more than a little irritated.

Mr Major confessed that he had spent much of his Saturday night studying the 23-page letter sent by Mr Gorbachev to press his case for massive *western aid in restructuring* the Soviet economy.

As he emerged on the steps of Downing Street with Mr Brian Mulroney of Canada he quickly found that none of the waiting reporters wanted to know what the G7's plans were for the world economy or how it would bolster the United Nations. What did he think of the Gorbachev plan?

The British prime minister was polite enough. He could not pass judgment until he had spoken to Mr Gorbachev. Mr Mulroney was typically rather more blunt: "I do not believe that you will see either miracles or *blank cheques from the* G7 summit."

So too were the British officials who commented later that Mr Gorbachev's bid for *any leftovers from the summit* banquet lacked the market practicalities to match its political eloquence. Mr Major, it seems, thinks that his Soviet counterpart does not understand how privatisation works.

As Mr George Bush and his entourage swept into London last night, there were reliable reports that the US president shared the angst of his fellow summiteers. It is after all more or less accepted that Washington holds the spotlight at such events.

And yet. For all the talk of important deals to be done on world trade, regional security, *terrorism and drugs, it was* desperately hard to escape the impression that the summit leaders will spent most of the next two days doing one thing: Waiting for Mr Gorbachev.

Economists air views on Soviet reform

By Anthony Robinson, East Europe Editor

ON THE eve of President Mikhail Gorbachev's historic mission to London to reverse more than seven decades of isolation from the world economy, debate still rages on the depth of Soviet commitment to economic and political reforms.

Invited by the European Bank for Reconstruction and Development (EBRD) to discuss "the economics of transition", a debate between Soviet and western experts in London yesterday reflected the varying degrees of scepticism which Mr Gorbachev will confront at his meeting with G7 leaders.

On the Soviet side Mr Abel Aganbegyan, whose earlier attempts to stitch up compromise economic reform plans were dismissed by Mr Boris Yeltsin, the Russian president, as marriages "between a hedgehog and a snake", stated wearily that "we have destroyed the centrally planned administrative system without creating a market economy. We cannot stay in limbo for ever. We cannot recreate the command economy. We must go forward to the market."

He listed five priority areas for action – from halving the budget deficit to between 5-6 per cent of GDP, to creating a new VAT-based tax system, building a new commercial banking system, liberalising prices and making the rouble internally convertible.

Professor Mario Nuti, from the European Commission, argued that economic stabilisation was essential whatever the Soviet Union decided to do.

"Even if it tried to go back to the old system it would first have to start with a minimum programme of market stabilisation," he said. The real problem in the Soviet Union, as in Yugoslavia, he added, was a lack of political consensus.

"As Yugoslavia has shown, a minimum political consensus is needed to go ahead with price stabilisation. Yugoslavia had an excellent stabilisation programme which fell apart on political differences between the republics and illegal printing of money by the Serbian banks," he said.

Polish economists likened the Soviet situation to Poland in 1981 when the Communist party, under General Wojciech Jaruzelski, attempted to impose "reform" by force.

It took another decade of stagnation before a new non-communist government in 1989 was able to replace the bankrupt communist system with a market-orientated stabilisation programme.

"The Soviets can muddle on like we did for another five years. They are still trying to improve the system, not replace it," concluded Professor Grzegorz Kolodko of Warsaw. The point was underlined by veteran Hungarian economist Professor Janos Kornai who stated bluntly: "You cannot go from socialism to capitalism with the Communist party still in charge and you can't achieve transition to a market economy if the military strongly object."

Mr Sergei Stankevich, the radical deputy mayor of Moscow, pointed out that the republics had already become the main vehicles of radical reform and were insisting on greater sovereignty precisely because of lack of political will from the centre.

Professor Yevgeny Yasin, one of the authors of the original "500-day" reform programme warned of an impending social explosion with unpredictable consequences.

But Mr Stankevich saw a glimmer of hope in the way some enterprise managers were adopting market methods and the speed with which commodity exchanges and commercial banks had sprung up to make the beginning of a home-grown market system.

SUMMIT AGENDA

■ MONDAY July 15

1325 Heads of delegations arrive at Lancaster House, greeted by Mr John Major.

1405 Group photograph (Garden Terrace).

1415 Discussions commence: Heads of delegation, foreign ministers, finance ministers.

2000 Separate working dinners: Heads of delegation, foreign ministers, finance ministers.

2137 Heads of delegation attend "Ceremony of the Keys" at the Tower of London.

■ TUESDAY July 16

0830 Delegations arrive at Lancaster House.

0900 Heads of delegation and foreign ministers meet to agree political declaration. Later, plenary session.

1200 or 1430 Mr Douglas Hurd holds press conference to deliver summit's political declaration.

1300 Separate luncheons: Heads of delegation, foreign and finance ministers.

1430 Plenary session resumes.

2000 Dinner with the Queen at Buckingham Palace.

2235 Musical entertainment at Buckingham Palace. Overnight the sherpas work on the final communiqué.

■ WEDNESDAY July 17

0900 Plenary session.

1030 Mr Major gives end-summit press conference on economic declaration; heads of delegation continue to national press conferences.

END OF SUMMIT

SUPPLEMENTARY PROGRAMME

1300 "Optional" luncheon for summit participants.

1300 President George Bush meets President Mikhail Gorbachev.

1420 Group photograph.

1430 Working session between heads of delegation and President Gorbachev.

1830 Mr Major/ President Gorbachev hold a joint press conference.

2045 Evening working dinner at Number 10 with President Gorbachev and G7 heads.

■ THURSDAY, July 18

President Gorbachev holds bilateral meetings.

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INTERNATIONAL NEWS

Israel to lift sanctions on South Africa

By Hugh Carnegy in Jerusalem

THE Israeli government, following the example of the US, yesterday decided to lift sanctions it imposed on South Africa in 1987. But a ban on new military contracts will remain in place.

The right-wing coalition cabinet, led by Mr Yitzhak Shamir, the prime minister, voted unanimously to drop a ban on civilian trade, investments, official visits and cultural and sports links, originally put in place under strong pressure from Washington.

Israel joined the international sanctions movement reluctantly, having previously built up a close, often clandestine relationship with Pretoria. Any unease about the moral issue of ties to apartheid was overridden by the benefits of working with a fellow international "pariah".

But the heart of the relationship was military co-operation, which yesterday's decision will not restore. Before sanctions were imposed, the two countries had built up a range of defence links, worth an estimated $200m (£125m) a year to Israel. South Africa's Cheetah combat aircraft, unveiled in 1986, was based on the Israeli Kfir-2 fighter, itself a copy of the French Mirage. Missile boats and unmanned reconnaissance aircraft were among other hardware sold by Israel and there were widespread servicing agreements.

However, the defence contracts were a source of considerable tension between Israel and Washington. Allegations have frequently been made in the US of extensive, clandestine defence links involving technology transfer from Israel to South Africa.

In October 1989, Mr Shamir's government adamantly denied a report on US television – which it believed was deliberately leaked by the administration – that Israel and South Africa were co-operating on building a long-range nuclear missile.

Independent defence experts were sceptical of that allegation. But the Israeli government makes no secret of the fact that some military co-operation continues. Contracts entered into before the 1987 sanctions decision were specifically excluded from the ban.

● Israel yesterday announced the restoration of full diplomatic ties with Congo, which became the ninth black African state to restore links in recent years.

Gulf states meet to discuss Kuwait security force

By Mark Nicholson

FOREIGN ministers from the six Gulf Co-operation Council states, Egypt and Syria gather in Kuwait today in an effort to resolve differences which have dogged the creation of a joint military force to protect the emirate.

However, the meeting, which was postponed from last week, is not expected on its own to iron out serious disagreements among the eight Arab states over the size, cost and composition of such a force and the role of Iran in any Gulf security arrangement.

Mr Amr Moussa, the Egyptian foreign minister, said last week that it could take two or three meetings to forge an agreement to replace departing US and British troops with an Arab force – the broad desire for which was set out in the March 6 Damascus declaration signed by the eight Arab states after the Gulf war.

The eight countries appeared last month to have reached an outline agreement to station a 26,000-strong Arab force in Kuwait, comprising units from the GCC countries (Kuwait, Saudi Arabia, Oman, Qatar, Bahrain and the United Arab Emirates), 10,000 Saudi Arabian troops and 3,000 men each from Egypt and Syria.

However, that deal has foundered amid Kuwaiti doubts about the cost and desirability of hosting large numbers of Egyptian and Syrian troops. Cairo and Damascus, for their part, disapprove of Kuwait's desire to have some western military guarantee to underpin security.

Egypt also has misgivings about giving any formal role in a security pact to Iran, which has been solicitously courting Gulf states in a drive to improve diplomatic and trade relations with its suspicious neighbours.

No clear compromise proposals have yet emerged to resolve the eight states' differences, although Oman is believed to be floating the idea of creating a 100,000-strong GCC army to police the region.

Canadian group sells Airbuses for leasing

By Robert Gibbens in Montreal

PWA of Canada has sold five of its Airbus 310 aircraft to Polaris Aircraft Leasing of the US, to be leased to Kuwait Airways for up to 21 months each. Polaris has the option of taking over three of the aircraft immediately and the other two at a later date.

PWA, parent company of Canada's second largest airline, Canadian Airlines International (CAIL), will get about C$50m (£27m) for each aircraft, providing a much-needed cash injection of up to C$250m.

Both CAIL and the country's biggest airline, Air Canada, have been forced into losses by the 20 per cent drop in international airline travel caused by recession and the Gulf war.

Three new Boeing 747 passenger/cargo aircraft scheduled for delivery this summer to Air Canada may have to be laid up in the Arizona desert if air travel does not revive quickly.

Beijing meeting seen as best hope for end to civil war

Cambodia factions gather for talks

By Yvonne Preston in Beijing

Hun Sen, left: in Beijing on the insistence of Prince Sihanouk, right

LEADERS of the four Cambodian factions began arriving in Beijing yesterday for a two-day meeting of Cambodia's Supreme National Council, convened and chaired by Prince Norodom Sihanouk.

Cambodia's prime minister, Hun Sen, is also due in Beijing for the SNC talks, which begin tomorrow. China has supported the radical Khmer Rouge, enemies of Hun Sen in the long-running civil war. His visit this week will be the first to Beijing by an official Cambodian representative since the Phnom Penh government was installed by Vietnam in January 1979.

China has however been swift to deny foreign reports that Hun Sen had accepted Beijing's invitation for a three-day official visit from July 22 to 24, a week after the SNC concludes its informal peace talks.

A Foreign Ministry official said at the weekend China had agreed to Hun Sen attending the SNC meeting at the request of Prince Sihanouk. The Chinese side would receive the members of the SNC by treating them equally, he said, but reports of a three-day official visit did not "square with the fact". The visit had been seen by diplomats as reinforcing the belief that China was behind the Khmer Rouge's flexibility at last month's talks in Pattaya, Thailand, which agreed a ceasefire, a halt to foreign military supplies and the establishment of the SNC under Prince Sihanouk.

Diplomats in Beijing see the SNC talks, to be followed by a meeting of the five permanent members of the UN Security Council in the Chinese capital, as the best hope for peace in 12 years of Cambodia's civil war.

In Beijing the SNC must tackle the issue of demobilisation, its extent and the role the United Nations is to play in monitoring the ceasefire and organising free elections.

The Security Council members will meet in Beijing on July 18 and 19, immediately after the SNC talks.

Australia's newly appointed ambassador to the SNC, Mr Richard Butler, the ambassador to Thailand, was to have presented his credentials during the Beijing meeting. This will not now go ahead but Australia is the first nation to establish such diplomatic links.

China warns US of price rises if trade privileges revoked

By Yvonne Preston

CHINA has warned that US consumers would have to pay more for Chinese goods if Washington revoked China's Most Favoured Nation trade status.

For a country suffering large trade deficits with Japan and Europe this would be a serious matter, said an article in the Communist party newspaper, the People's Daily, at the weekend. The strongly-worded threat comes three days after the US House of Representatives voted to attach human rights and weapons trade conditions to MFN renewal.

It said the US was China's third largest trading partner and US exports to China accounted for around 13 per cent of China's total imports. It said US consumers would have to pay more for Chinese goods if MFN were revoked.

US investors in China, with $4.3bn at stake, would have trouble buying the raw materials they needed from the US and selling their goods back to it, the article argued.

The article is the second strong attack on the US over MFN and the congressional vote by the party newspaper in as many days. On Friday it criticised the US for linking trade to arms sales while being a big dealer itself.

President George Bush wants unconditional renewal of MFN. Both Houses of Congress must muster a two-thirds majority to prevent him from vetoing their legislation.

Human rights mission arrives

AN Australian human rights mission to China arrived in Beijing yesterday, the first of its kind and a further sign of a shift in Chinese policy since pro-democracy protests were crushed two years ago, writes Yvonne Preston.

However, the mission arrived with no detailed programme and no clear idea of the degree of access its members would have.

The legal and human rights experts, politicians, diplomats and scholars will spend several days in China and Tibet, to assess human rights and initiate debate on the subject with Chinese officials.

US banks may face tight curbs on expansion

By **Peter Riddell**, US Editor, in Washington

THE largest US banks would face tight restrictions on their scope to expand – both into new activities and geographically – under proposals to be unveiled within a few days by the Senate Banking committee.

Senator Don Riegle, committee chairman, is also considering a special assessment on all the assets of US banks so as to help refinance the nearly insolvent bank insurance fund, run by the Federal Deposit Insurance Corporation.

This idea, backed by small community banks, would mean taking into account more than $300bn (£190bn) of deposits in foreign branches of US banks. These deposits abroad are a big source of funds for some of the largest, and strongest, US banks, which might consider restructuring their operations if they faced such an assessment.

The Senate version of the banking reform bill is considerably less radical than the comprehensive plan put forward by the US administration and the far-reaching measure adopted last month by the House Banking committee.

Even so, the prospect that the Senate committee will approve a version within the next few weeks increases the chances that legislation to allow closely regulated changes in banking structure will be passed by Congress this year.

The draft from the Senate committee would not abolish outright the present ban on banks opening branch networks across state lines, but it would impose limitations. These are likely to include giving any state legislature three years to decide whether to let banks open branches in its state and allowing only well-capitalised banks to expand in this way.

Moreover, the Senate draft being circulated in Washington would also retain the current prevention of industrial and commercial groups owning banks. The administration had urged – and the House committee had accepted - an end to this ban, though the House Energy and Commerce committee is also opposed to such as change.

The proposals prepared by the Democratic Senator Riegle would repeal the Glass-Steagall limits on commercial banks affiliating with securities and investment houses, but would insist on walls between the two types of operations so as to protect insured bank deposits. Banks would not be allowed to expand into the insurance business.

The Senate plan, like the House version, would also give the FDIC authority to increase its borrowing substantially so as to bolster its funds. However, defying the administration's wish to curtail the scope of deposit insurance, the Senate is likely to follow the House in retaining protection for multiple accounts at a single bank. Protection for deposits arranged by brokers and associated with pension plans may be reduced.

THE STRIKE at the Chuquicamata copper mine in Chile – pictured above with its vast open-cast workings deserted – is expected to end today. Management and union leaders at Chilean Copper Corporation (Codelco) reached an agreement at the weekend to wind up a two-week strike at the world's largest copper extraction undertaking, stated union and management jointly, reports Pablo Bachelet in Santiago.

The local press, quoting union sources, said the deal, which was to be put to the union rank and file late yesterday, includes a 2 per cent share for workers in company profits, which are expected to be $1.6bn this year. New benefits also include longer holidays and a one-off bonus of 325,000 pesos (£580).

The company, whose costs have risen by 25 per cent in the last five years, did not meet demands for a real increase in wages. But it will maintain the benefits in the previous contract, including free housing and health care, plus index-linked pay rises.

EC ministers to debate Brussels farm reform plan

By **David Buchan** in Brussels

EC FARM ministers will today take their first bite at the European Commission's radical farm reform plan, which will take most of this autumn to digest and negotiate.

The plan aims at reducing food surpluses that have to be dumped on the world market with costly subsidies. It proposes cutting internal support prices (by as much as 35 per cent for cereals), and paying compensation to farmers, who are also to be encouraged to take more land out of production.

The plan, approved by the Commission last Tuesday, has already been criticised by most EC farming organisations, which claim that Brussels has given in to pressure from the Community's main negotiating partners in the General Agreement on Tariffs and Trade talks.

British and Dutch farmers particularly have complained that farmers with larger holdings would not be fully compensated for price support cuts, a point which their ministers are expected to underline at today's EC agricultural ministers' meeting.

Another controversial feature of the plan is its cost. The Commission predicts the EC farm budget, already strained to breaking point, would continue to rise to Ecu38.8bn (£27.1bn) by 1997, before falling thereafter. UK officials believe that the Commission is being optimistic in predicting that world cereal prices would rise to the reduced level of the EC's internal support price and thereby remove any need for export subsidies.

The issue of removing distortions in world agricultural trade is the main obstacle to progress in the stalled Gatt negotiations, which will be discussed at the Group of Seven summit which opens in London today. Mrs Carla Hills, the US trade representative, and Mr Michael Wilson, Canada's trade minister, have both welcomed the Brussels Commission's plan as a necessary first stop to getting an overall Gatt agreement.

Turks attack businesses in Belgium

THE Turkish left-wing terrorist group Dev Sol yesterday claimed responsibility for a second fire bomb attack in as many days against Turkish businesses in Brussels, AP and our Foreign Staff report.

No-one was hurt and damage was limited in the attacks, said a police official.

A telephone call to the Turkish newspaper Hurriyet said the assault yesterday on the Halk Bankasi bank was to draw attention to the shooting of 10 Dev Sol members by Turkish police on Friday in Istanbul. On Saturday, Dev Sol claimed responsibility for a fire bomb thrown at the Turkish Airlines offices.

All this follows a wave of protests in Europe in the past few days against the Turkish government's treatment of Kurds in eastern Turkey.

Yesterday in London, 70 Kurdish nationalists began a two-day hunger strike outside Westminster Cathedral.

NEWS IN BRIEF

Russo-Czech payment pact

A payments agreement by Czechoslovakia and the increasingly assertive Russian Federation could provide a model for reviving trade between the Soviet Union and eastern Europe, writes Leyla Boulton in Moscow.

The accord, signed on Saturday, provides for Czechoslovakian trade with Russia to be paid for through a mixture of barter and cash settlements in both hard currency and national currencies, Tass reported yesterday.

Mr Vaclav Klaus, Czechoslovakian finance minister, signed the agreement in Prague with his Russian counterpart, Mr Igor Lazarev. The former said he expected to make similar agreements with other Soviet republics.

Support for Ukrainian currency

Mr Leonid Kravchuk, head of the Ukrainian government, has supported plans to introduce a separate currency, giving official, high-level support to a project previously championed in public only by opposition groups and lower members of the government, Chrystia Freeland reports from Kiev.

This was a sign that the Ukraine, the second largest Soviet republic, will stay on course towards sovereignty, in defiance of Kremlin pressures for it to join the eight republics which have already ratified the Soviet Union Treaty.

Bulgarian MPs on hunger strike

Bulgarian MPs on hunger strike have demanded the resignation of Mr Hristo Danov, interior minister, after four members were beaten by ministry troops on Friday, writes Ben Crampton in Sofia. The protesters demand a referendum on the country's new constitution, which they call "insufficiently democratic".

Peru's aid hopes hit by murders

By **Sally Bowen** in Lima

PERU'S prospects of attracting further foreign investment and international aid were dealt a blow by the killing at the weekend of three Japanese horticultural experts and the destruction of their Japanese-funded research centre.

The Sendero Luminoso (Shining Path) Maoist guerrilla movement executed the three Japanese last Friday, then dynamited the research facility and archives holding results of years of work.

The selection of the Japanese project was seen as a Sendero response to Japanese support of Peru's recent resumption of international financial relations. Tokyo has announced it would provide $400m of the $1.3bn Peru needs to cover two years of repayments to multilateral lenders, this being the largest single contribution from Peru's support group abroad.

Moscow's stance key to European energy charter

By **Andrew Hill** in Brussels
and **Deborah Hargreaves** in London

MORE than 50 countries and international organisations are gathering in Brussels today to thrash out details for a European energy charter, aimed at helping the Soviet Union exploit its natural resources.

"The fundamental issue is the degree to which the Soviet Union will be willing to accept an attempt to reform its energy policy along market lines to give confidence to western companies and bankers to invest in the industry," Mr Clive Jones, the European Commission's deputy director-general for energy, said in London last week.

The Netherlands, which will chair the meeting, hopes the 35 full participants will be ready to sign a charter by mid-December, although today's discussions may be dominated by procedural issues.

Negotiations will tackle details of the charter's financing and decision-making process. Monthly meetings of participants – which include all EC countries, the US, Japan, and the Soviet Union – will then consider specific areas, such as nuclear safety, energy efficiency and the environment. These could become the subject of legally binding protocols next year, once there is political agreement on the charter.

The Soviet Union's position will be crucial to negotiations. In particular, delegates will want to know whether Moscow is happy to accept only a legal framework for energy reforms, or whether it wants specific funding, a request likely to be turned down by EC members.

Madame guillotined

DOZENS of Japanese right-wingers marked France's Bastille Day yesterday by beheading an effigy of Mrs Edith Cresson, French prime minister and a fierce critic of Japan's trade policies, AP reports from Tokyo.

The protesters, some dressed military-style, dragged the headless effigy through Tokyo in an hour-long march to the French embassy, where they shouted anti-Cresson slogans and scuffled with police.

Mrs Cresson has accused the Japanese of "wild protectionism" and of trying to conquer the world with exports.

Such remarks have led to protests and vandalism at French companies in Tokyo.

There were no injuries or arrests during the incident yesterday, but the noisy protest at the embassy gate inconvenienced guests arriving for July 14 celebrations inside.

Receivers forbidden to see damning report

By **Bernard Simon** in Grand Cayman and **Richard Waters** in London

THE RECEIVERS of the two largest operating companies in the Bank of Credit and Commerce International group have been forbidden access to the damning Price Waterhouse report which led to the swoop on the scandal-ridden bank ten days ago.

Inability to obtain the report means that the receivers have been left to piece together from scratch one of the most complex financial frauds ever.

It also means that the two, from international accounting group Deloitte Ross Tohmatsu, will face difficulties in determining the bank's financial position before deciding whether it should be wound up.

It took Price Waterhouse three years and 10 specially-commissioned reports for banking supervisors before they finally penetrated BCCI.

Price Waterhouse' reports, commissioned by banking regulators and subject to a statutory secrecy requirement, cannot legally be shown to the receivers.

Special dispensation was granted by the High Court in the UK last week for the reports to be shown to two UK-based members of the receivership team, led by Mr Christopher Morris. However, they are responsible only for overseeing BCCI's UK branches, and are prevented themselves from showing the reports to anyone else, including their own colleagues.

These restrictions could hinder the efforts of the two receivers – Mr Brian Smouha, a partner of the UK firm Touche Ross and the commissioner (receiver) of the Luxembourg-based arm of BCCI, which owns the UK branches, and Mr Ian Wight, managing partner of the Cayman branch of auditors Deloitte Ross Tohmatsu and receiver for BCCI's extensive operations centred on the Caribbean tax haven. The Luxembourg and Cayman arms of BCCI are believed to have controlled the bulk of its business around the world.

Mr Smouha, who is also expected to be appointed commissioner of the Luxembourg-based holding company this week, began work on BCCI less than a week ago with no previous knowledge of the bank.

His standing start, and the fact that his formal appointment was not made until Thursday, means that he has only just begun the complex task of building a full picture of the bank's affairs. He flew to Abu Dhabi on Friday night for talks with BCCI shareholders.

Mr Wight said he has asked the local attorney-general for assistance in obtaining the Price Waterhouse report. He said that he has "no specific information" yet on the solvency of the Cayman operations, and has yet to find evidence of fraud.

He emphasised however, that his investigations are still in a very early stage.

The Bank of England *said that*, if requested, it would seek court approval for other Touche Ross/Deloitte Ross Tohmatsu staff to see the reports, but that no request had been made.

It is not known whether the UK court would make the reports available to receivers of entities outside the UK.

FRAUD EVIDENCE

Bank denies long-term knowledge

By **David Barchard**

THE BANK of England has strongly denied suggestions that it had known for nearly a year and a half about possible fraud and wrongdoing at BCCI *before it halted its operations.*

The Bank said yesterday that in March this year that it was presented with evidence for the first time indicating possible fraud inside BCCI. Until then, reports from Price Waterhouse, BCCI's auditors, only indicated that the bank faced financial problems.

The Bank then asked Price Waterhouse to prepare a report on the bank under Section 41 of the Banking Act. This was followed by the closure of the bank on July 5.

The Bank said yesterday: "There have been a number of reports by the auditor in recent years to the board of BCCI and to the regulators on the financial conditions of BCCI.

"The reports in 1990 certainly showed financial problems but at the prompting of the auditors and the regulators, the appropriate financial support was given by the shareholders.

Until the Section 41 report which was received in June of this year, none of these reports had contained evidence of fraud or other wrongdoing of the find that."

The Bank of England was adamant that the report had only shown the financial problems of BCCI which revealed a need for its restructuring and a large injection of new capital.

This was very different from what the Bank learned about BCCI in March this year when it was given evidence of fraud and false accounting at BCCI.

Moves by the Bank to restructure BCCI under an Abu Dhabi holding company with new management were based on the March 1990 Price Waterhouse Report.

● The Labour party will attempt to maximise the government's embarrassment over the BCCI affair with a demand for a full enquiry into the circumstances of the failure.

Mr Gordon Brown, Labour's trade and industry spokesman, said that the BCCI collapse was emerging as one of the "biggest banking scandals in history". Labour would insist on a top-level inquiry to discover what the Bank knew about the bank's affairs before ordering its closure and when that information was available to the authorities.

Sheikh Zayed bin Sultan al-Nahyan, ruler of Abu Dhabi, will today issue a strongly-worded statement *attacking the Bank of* England for closing BCCI and criticising Price Waterhouse, BCCI's auditors, for allegedly not detecting corruption at the bank years ago.

Sheikh al-Nahyan, who leads a group of Abu Dhabi shareholders controlling 77 per cent of BCCI, believes that he had eliminated corruption from the bank by the time of its closure.

Worldwide protests spread: BCCI depositors in Hong Kong hold a demonstration against the government's decision to close the bank and its handling of the affair

PERU

Reserves of $250m deposited

By **Sally Bowen** in Lima and **Jimmy Burns** in London

PERU deposited $250m of its international reserves with BCCI following the country's conflict with the western banking community in 1986, according to Mr Hector Neyra, general manager of Peru's central reserve bank.

The bulk of the funds was transferred to BCCI's branch in Panama after Peru was asked to withdraw its reserves from the Bank of International Settlements. The move occurred at a time when Mr Alan Garcia, then president of Peru, was set on a collision course with the IMF and western commercial banks over his refusal to meet foreign debt payments.

Mr Neyra said the central reserve bank's technical and legal department recommended putting $100m in BCCI, then *equivalent to about 10 per cent* of its reserves, but the bank's board authorised the transfer of $200m. The total was later increased by a further transfer of $50m to BCCI's Panama branch. He believes that the bulk of the funds was eventually returned to the Peruvian central bank by the beginning of 1988.

The attraction of the transfers appears to have been that the higher interest rate paid by BCCI on the deposits than that offered by other banks.

The transfer of reserves to BCCI was stopped and deposits withdrawn in early 1988 after repeated warnings that Peru's reserves deposited with BCCI could be in danger.

One warning came in an internal memorandum sent on August 7 1987 to officials of the reserve bank by IBCA Banking Analysis Ltd, the main London-based bank rating agency.

IBCA has confirmed that it *had warned the Peru's central* reserve bank that BCCI operations had in the previous two years registered significant losses on its operations in the options market and was using an "unusual accounting system" which did not allow the level of losses incurred to be clearly identified. The memorandum recommended that in view of the high level of Peru's deposits in BCCI, these should be eventually transferred.

Peru's links with BCCI are at the centre of a Peruvian parliamentary inquiry into allegations of ill-gotten gains while in office by the former president Garcia.

A close friend and party collaborator denied that Mr Garcia personally enriched himself on the deal. He was less inclined, however, to deny that funds had been siphoned off to secure APRA's future.

Mr Garcia's own position, reflecting opinion over the *BCCI scandal in many parts of* the Third World, is that the accusations of grafts and transfer of funds are part of a political conspiracy by the west.

PAKISTAN

Banking activities may face isolation

By **Bernard Simon** in Grand Cayman and **Farhan Bokhari** in Karachi

AUTHORITIES in Pakistan are being warned that failure to close the three local branch of BCCI could jeopardise the country's international banking relationships..

The bank's receivers are concerned *that significant sums of* money may be haemorrhaging through the Pakistani operations as long as it remains open.

Mr Ian Wight, BCCI' s receiver in the Cayman Islands, said in an interview that if the Pakistani central bank allows the office to continue functioning, "they will be responsible to me for any funds that have been dissipated."

Mr Sibghatullah, an executive director of the Pakistan's central bank, confirmed yesterday that there had been contact with the Bank of England last week but would not elaborate.

Pakistani banking officials who have been examining Mr Wight's powers have concluded that banks operating in the *Pakistan must conform to local* laws rather than those applied in countries of their origin. Mr Sibghatullah said that "whatever happens in Pakistan has to be governed by pakistani laws, not those of Cayman islands".

The Pakistan operation was one of 29 BCCI offices controlled from the Caymans. The receivers' influence there has so far been limited however, by the inability to find a suitable agent to represent them.

According to Mr Wight, it is "*too early to say*" what amounts have been paid out in Pakistan since the international swoop on BCCI on July 5. He said the branch still appeared to be open last Friday.

The receivers have instructed solicitors to draft what Mr Wight called a "suitably worded release" emphasising to BCCI branches and regulators in all countries where the bank operated the importance of protecting its assets.

The warning will be cleared with the authorities in the Cayman Islands before it is distributed. Securing the bank's assets around the world has been a high priority for the receivers over the past week.

Among other things, locks have been changed on doors and *vaults, computer keys* have been replaced, and employees have been closely supervised.

The bank's 70 workers in the Caymans have been warned they face instant *dismissal if* they discuss its affairs with outsiders.

Doubts that finally led to the doghouse

Bernard Simon on the extent of concern in the Caymans and questions about the action's timing

EVEN THE owner of the Cayman Islands dog kennels suspected something was amiss at BCCI. A week or two before regulators swooped on the bank's operations in the Caribbean tax haven, the kennel owner tipped off a foreign banker that a Pakistani manager at BCCI had dropped off his dog and said he would not be back.

More telling signals that all was not well with BCCI's western hemisphere flagship were *also flashing long before the* Cayman inspector of banks joined regulators in other parts of the world in closing down the bank on July 5.

The islands' police commissioner *has* for more than two years assiduously avoided social contact and one-to-one meetings with BCCI's local executives. "It seemed inevitable that we would be involved *at some stage in an investiga*tion of that bank," says Mr Alan Ratcliffe, the commissioner.

As in other parts of the world the point is being raised *whether* the authorities could have or should have acted sooner and more decisively against the scandal-ridden bank.

The issue is of special relevance *to the Caymans. Regula*tors and bankers have been trying hard – and with considerable success – to shake off the islands' shady image as a *refuge for money launderers* and tax dodgers.

The BCCI affair is bound to complicate those efforts. On the other hand, *it may prove to* be a blessing in the long run. The bank's collapse will almost certainly sharpen regulators' focus on the few bad apples that remain among the 528 banks which *funnel business* through the relaxed British colony.

The Caymans were a key link in the BCCI *chain.* Incorporated there in 1976, the bank's operations reached a peak in 1989, with *US$7bn (£4.24bn) of assets.*

"It seemed inevitable that we would be involved at some stage in an investigation of that bank" – Mr Alan Ratcliffe, the commissioner

They revolved around three entities: BCCI (Overseas), Credit and Finance Corporation (CFC), and International Credit and Investment Co (*ICIC*).

ICIC had a separate management structure, which was not directly controlled by BCCI but by a charitable trust understood to have links to the *bank.*

CFC, which was used mainly as a trade finance and merchant banking vehicle, was greatly reduced in size over the past year as a result of the worldwide restructuring of the group. As a result, the group's Cayman assets are estimated *to be well below the 1989 fig*ures.

But BCCI's controlling shareholders in Abu Dhabi also set up three Cayman-based "realisation companies". Their main *function was apparently to buy* some of the bank's problem *loans, thereby removing them* from its balance sheet.

BCCI's Cayman receiver, Mr Ian Wight of auditors Deloitte Ross Tohmatsu, has so far counted 29 foreign offices con*trolled from the islands. They* include an agency in Miami and subsidiaries as far-flung as Pakistan and Nigeria.

The Caymans operation employed 70 people, including *about 20 Pakistanis. Both in* business and socially, the Pakistani managers had little contact with other expatriate bankers on the islands.

Suspicions about the Cayman operation had surfaced in 1988 when it was implicated in the conviction of BCCI in Flo*rida on money laundering* charges. Subsequently, a US Senate investigation has also turned to the Caymans as a possible link in BCCI's clandestine acquisition of shares in various US banks.

Mr Wight says he has no "specific information" yet on the solvency of the Cayman *bank, nor has* he yet found any evidence of fraud. been shown

But he is still *in the early stages of his work.* Much of the past week has been spent setting up a team and securing the bank's assets both in the Caymans and abroad.

*He hopes to provide a gen*eral outline of BCCI's financial condition within the next two weeks.

The receivers may also provide some leads to enable out*siders to judge* the regulators' actions.

In his annual address to the islands' banking community last week, Mr Nicholas Duggan, the outgoing president of the Cayman Bankers Association, praised the inspector of *banks for moving "quickly and decisively"* against BCCI.

Privately however, views are more ambivalent. Mr Duggan himself, who is also managing director of the Bermuda-based *Bank of Butterfield's* local subsidiary, says he warned the inspector a number of times over the past two years that bad publicity swirling around BCCI could hurt the drive to *improve the islands reputation.*

Both the inspector of banks, Mr John Atkinson, and the assert that while they may have had misgivings about BCCI, they had no firm evi*dence of wrongdoing.*

The inspector's office, which has only 12 staff to police over 500 banks, has on occasion in the past raised concerns about BCCI's operations and its *financial condition,* based on the bank's usual quarterly returns. But the issues were apparently resolved to the inspector's satisfaction.

*Mr Atkinson, who is on sec*ondment from the Bank of England, also emphasises that BCCI's Cayman operations cannot be seen in isolation.

The head of a British bank's subsidiary *adds that the regu*lator's situation was one where "If it's all right with the Bank of England, it's all right with us".

INTERNATIONAL ECONOMIC INDICATORS: NATIONAL ACCOUNTS

Figures for GNP/GDP are in billions of European currency units (Ecu). The first breakdown is in current prices and the second shows growth rates in the constant price series.

UNITED STATES

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Private Invest. (as a % of GNP)	Govt. Spend. (as a % of GNP)	Net Exports (as a % of GNP)
1984	4,780.6	64.4	17.6	19.5	-1.6
1985	5,266.8	65.5	16.0	20.4	-1.9
1986	4,302.3	66.1	15.6	20.6	-2.3
1987	3,912.7	66.6	15.5	20.4	-2.5
1988	4,118.6	66.4	15.3	19.7	-1.5
1989	4,720.7	66.3	14.8	19.7	-0.9
1990	4,288.0	66.9	13.6	20.1	-0.6
2nd qtr.1990	4,453.2	66.6	13.9	20.0	-0.5
3rd qtr.1990	4,245.3	67.0	13.8	20.0	-0.8
4th qtr.1990	4,030.3	67.4	12.6	20.5	-0.5
1st qtr.1991	4,137.1	67.3	11.9	20.5	0.2

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1984	6.8	4.8	30.6	4.4	6.8
1985	3.4	4.7	-3.3	7.9	2.3
1986	2.7	3.9	0.4	4.2	4.4
1987	3.4	2.8	4.6	2.3	13.6
1988	4.5	3.6	5.5	0.2	18.3
1989	2.5	1.9	1.6	2.3	11.0
1990	1.0	0.9	-3.9	2.8	6.4
2nd qtr.1990	1.0	1.3	-2.6	2.4	4.5
3rd qtr.1990	1.0	0.8	-3.5	3.3	6.4
4th qtr.1990	0.5	0.1	-7.4	3.8	5.8
1st qtr.1991	-0.6	-0.5	-11.0	2.7	3.2

JAPAN

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Total Invest. (as a % of GNP)	Govt. Cons. (as a % of GNP)	Net Exports (as a % of GNP)
1984	1,606.6	59.4	28.0	9.8	2.9
1985	1,780.1	58.7	28.0	9.5	3.7
1986	2,033.6	58.3	27.7	9.6	4.3
1987	2,102.0	58.4	28.4	9.4	3.8
1988	2,465.7	57.6	30.4	9.1	2.9
1989	2,622.0	57.3	31.5	9.1	2.1
1990	2,330.8	56.7	33.0	8.9	1.4
2nd qtr.1990	2,249.2	57.0	33.0	8.6	1.1
3rd qtr.1990	2,287.9	56.7	33.5	8.8	1.0
4th qtr.1990	2,446.6	56.2	33.5	9.1	1.2
1st qtr.1991	2,520.0	55.6	33.0	8.8	2.7

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1984	4.3	2.8	5.6	2.7	14.8
1985	5.1	3.3	6.5	1.7	6.5
1986	2.7	3.4	4.3	4.5	-5.3
1987	4.3	4.2	8.2	0.4	4.6
1988	6.3	5.2	14.2	2.2	10.7
1989	4.7	4.3	9.1	2.1	15.0
1990	5.7	4.1	10.2	1.4	10.8
2nd qtr.1990	6.9	6.3	11.3	0.9	14.5
3rd qtr.1990	5.5	4.1	11.4	1.5	5.9
4th qtr.1990	4.8	1.8	9.4	1.6	6.2
1st qtr.1991	5.9	2.2	9.5	1.8	5.2

GERMANY

CURRENT PRICES	Gross National Product	Private Cons. (as a % of GNP)	Total Invest. (as a % of GNP)	Govt. Cons. (as a % of GNP)	Net Exports (as a % of GNP)
1984	786.9	56.8	20.1	19.9	3.2
1985	825.5	56.4	19.5	19.9	4.1
1986	911.2	55.0	19.5	19.7	5.7
1987	967.7	55.3	19.2	19.8	5.6
1988	1,015.8	54.7	19.9	19.6	5.8
1989	1,085.2	53.9	21.1	18.7	6.4
1990	1,182.6	53.2	22.2	18.4	6.2
2nd qtr.1990	1,167.8	53.3	22.2	18.7	5.8
3rd qtr.1990	1,192.5	52.8	21.7	18.2	7.2
4th qtr.1990	1,207.6	53.0	23.3	18.1	5.6
1st qtr.1991	1,251.9	52.7	23.1	17.3	6.9

CONSTANT PRICES (% growth in)	GNP	Cons.	Invest.	Govt.	Exports
1984	3.0	1.5	2.2	2.5	8.9
1985	2.1	1.5	-0.8	2.1	7.6
1986	2.2	3.5	3.8	2.5	-0.1
1987	1.4	3.3	1.3	1.5	0.6
1988	3.5	2.5	7.4	2.2	5.5
1989	3.8	1.8	9.5	-1.6	11.4
1990	4.7	4.1	10.1	2.9	10.3
2nd qtr.1990	4.4	4.4	13.0	2.8	4.4
3rd qtr.1990	5.5	4.9	11.0	3.0	12.0
4th qtr.1990	5.3	3.4	9.4	4.1	16.2
1st qtr.1991	6.2	4.1	12.6	-1.4	17.7

FRANCE

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1984	634.8	60.5	19.0	19.9	0.4
1985	691.8	60.8	18.9	19.6	0.7
1986	743.6	60.2	19.7	19.3	1.0
1987	768.2	60.7	20.2	19.1	0.2
1988	813.5	60.0	21.2	18.6	0.1
1989	874.5	59.7	21.9	18.3	0.2
1990	936.4	60.0	21.7	18.3	-0.1
2nd qtr.1990	936.4	59.9	21.6	18.3	0.2
3rd qtr.1990	941.3	59.9	22.3	18.3	-0.5
4th qtr.1990	946.6	60.3	21.4	18.4	-0.2
1st qtr.1991	950.4	60.3	21.6	18.6	-0.5

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1984	1.3	1.1	-2.4	1.1	7.0
1985	1.9	2.4	2.8	2.3	1.9
1986	2.3	3.7	9.0	1.7	-1.1
1987	2.4	3.0	5.7	2.8	2.7
1988	4.2	3.5	7.9	2.8	8.0
1989	3.9	3.2	7.3	0.2	10.3
1990	2.8	3.1	4.3	3.1	5.1
2nd qtr.1990	2.8	3.9	1.7	3.0	3.0
3rd qtr.1990	3.0	2.5	6.6	3.4	5.8
4th qtr.1990	1.9	2.7	-0.6	3.1	3.5
1st qtr.1991	1.2	1.8	-1.4	3.0	-0.7

ITALY

CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1984	526.4	62.3	23.0	16.5	-1.8
1985	583.3	62.7	22.5	16.7	-1.9
1986	613.9	62.3	20.7	16.5	0.4
1987	655.0	62.5	20.7	17.0	-0.3
1988	704.7	61.9	21.4	17.3	-0.5
1989	787.2	62.0	21.6	17.0	-0.6
1990					
2nd qtr.1990	852.0	62.0	20.9	17.2	-0.1
3rd qtr.1990	851.3	62.4	21.1	16.9	-0.5
4th qtr.1990					
1st qtr.1991					

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1984	3.0	2.1	10.1	2.5	7.3
1985	2.6	3.1	1.5	3.5	3.9
1986	2.5	3.8	-0.2	2.9	3.8
1987	3.0	4.2	6.7	3.7	3.3
1988	4.2	4.1	7.8	2.8	4.8
1989	3.1	3.8	4.0	0.5	10.1
1990	1.9				
2nd qtr.1990	2.0	3.0	2.6	0.9	6.4
3rd qtr.1990	1.6	2.6	4.5	1.5	2.7
4th qtr.1990	1.1				
1st qtr.1991					

UNITED KINGDOM

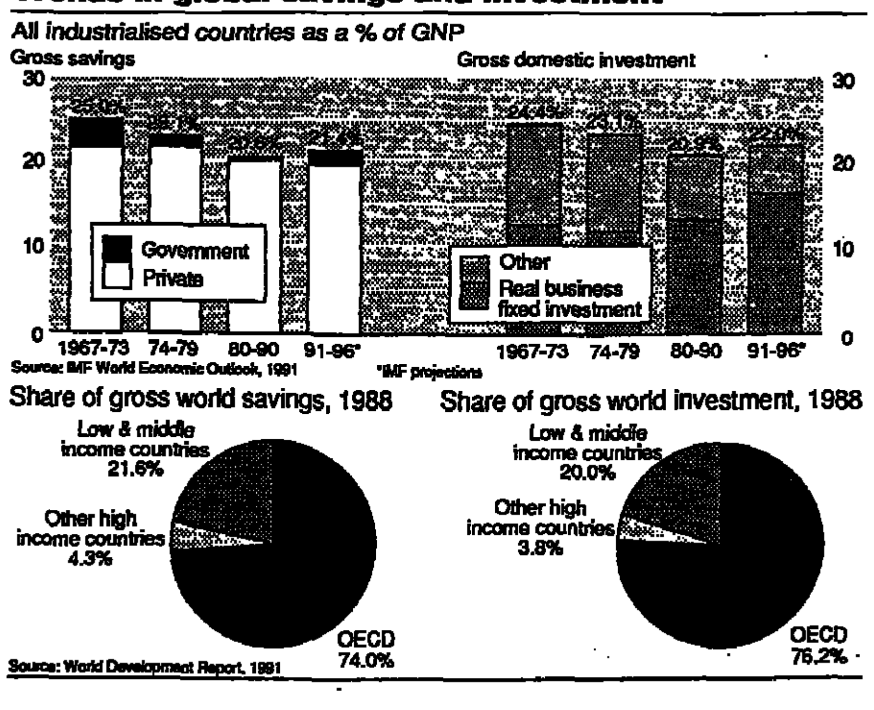
CURRENT PRICES	Gross Domestic Product	Private Cons. (as a % of GDP)	Total Invest. (as a % of GDP)	Govt. Cons. (as a % of GDP)	Net Exports (as a % of GDP)
1984	550.0	61.4	17.3	21.5	-0.2
1985	604.9	61.2	17.2	20.7	0.9
1986	571.7	63.1	16.9	20.7	-0.7
1987	598.0	62.9	17.9	20.3	-1.1
1988	703.7	63.6	20.2	19.7	-3.6
1989	758.1	64.0	20.2	19.4	-3.7
1990	763.3	63.4	18.9	20.0	-2.3
2nd qtr.1990	742.4	63.6	19.3	20.1	-3.0
3rd qtr.1990	788.5	63.0	18.5	20.3	-1.8
4th qtr.1990	785.2	63.2	17.8	20.4	-1.3
1st qtr.1991	788.4	63.8	17.0	20.5	-1.3

CONSTANT PRICES (% growth in)	GDP	Cons.	Invest.	Govt.	Exports
1984	1.6	1.6	7.8	0.9	6.5
1985	3.7	3.6	3.5	0.0	5.9
1986	4.0	6.3	1.7	1.8	4.6
1987	4.6	5.1	10.5	1.3	5.7
1988	4.0	7.0	17.8	0.6	0.4
1989	2.0	3.9	2.5	0.7	4.3
1990	0.7	0.9	-6.2	2.3	4.9
2nd qtr.1990	2.1	1.7	-5.5	4.5	8.4
3rd qtr.1990	0.3	0.8	-6.7	0.9	2.7
4th qtr.1990	-1.2	-0.8	-5.5	1.5	1.2
1st qtr.1991	-2.1	-0.7	-13.4	0.7	-2.4

Seasonally adjusted data used in all cases. Statistics for Germany apply only to western Germany. GNP/GDP is broken down into private consumption expenditure, investment (the sum of gross fixed capital formation and the change in stocks), general government final consumption, and net exports (exports of goods and services minus imports of goods and services). The US includes investment by government in the government series rather than under investment. Quarterly GNP/GDP totals are annualised. The growth rates are the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The figures in the fifth column of each set of growth rates refer only to exports, rather than to net exports. Data supplied by Datastream and WEFA from national government sources.

Trends in global savings and investment

All industrialised countries as a % of GNP



Is there a shortage of global savings?

THE SPECTRE of a global savings shortage is haunting the world economy, leaders of the Group of Seven industrialised countries will be told at this week's summit. Rising demand for capital in eastern Europe and the Middle East and historically low levels of savings have raised real interest rates and threaten to depress world economic growth. In response, US policy-makers will call for lower nominal interest rates.

For developing countries, the savings "shortage" is an old story. Twenty years ago there was a net transfer of resources from the developed to developing coun*tries. In the 1980s,* notes the World Bank Development Report, there has been a net transfer of resources from the developing world.

The explanation for the shift is the fall in developed country gross savings, as a *percentage of total income, from 23.1 per* cent in 1974-79 to 20.6 per cent in 1980-90. The fall in total savings is split between a 1.5 percentage point fall in private savings and a 1 percentage point fall in government savings. But the latter represents a far greater proportionate decline.

As a result of this development the aggregate current account balance of the industrialised countries – the difference between their total savings and investment – moved from a surplus of 1.1 per cent of total income in 1967-73 to a deficit of 0.3 per cent in 1980-90.

In 1988 the OECD member countries contributed 74 per cent of world savings, but accounted for 76.2 per cent of world investment. Low- and middle-income countries contributed 21.6 per cent of total world savings, but accounted for only 20 per cent of investment, transferring the difference to the OECD.

One important caveat: according to the data, the world saved $135bn (£84.3bn) more than it invested in 1988 – the world ran a current account surplus with *itself. Nevertheless,* the trend is clear. The current account surplus of the low- and middle-income countries has risen from 0.1 per cent of world income in 1974-80 to 0.5 per cent in 1986-88; meanwhile, their investment has fallen from 6 to 4.5 per cent of world income over the same period.

This fall in investment by developing countries was a response to the rise in real interest rates that accompanied the fall in world savings. In the 1950s and 1960s real interest rates fluctuated between 1 and 1.5 per cent. In the second half of the 1970s they became negative, whereupon they rose sharply to between 4 and 5 per cent.

In the late 1970s financial institutions lent heavily to developing countries. Rising real interest rates in the early 1980s, principally driven by the shift in demand for capital in the US, meant that *many* developing countries were unable to service these debts. As a result, funds available for investment in developing countries fell. The World Bank estimates a 1 percentage point rise in real interest *rates cuts the growth rate of developing* countries by 0.2 percentage points.

Unhappily, the IMF estimates the deficit of industrial countries will grow to 0.6 per cent of total income over the next five years. Similarly, the World Bank predicts that a rise in real interest rates will slow economic development still further over the next few years.

So the question is not whether *there* is a shortage of savings – there always is – but whether the relation between *ex ante* supply and demand will shift still further. It is the policies of industrial countries that matter most: a 1 percentage point increase in the *share* of US savings in GNP would generate more than the greatest feasible demand for additional capital from eastern Europe and the Soviet Union.

Will there be a rise in savings in *developed countries, perhaps through a* fall in the US budget deficit? It seems unlikely. But two things are certain: lower short-term nominal interest rates will *not* increase the global supply of savings; furthermore, Japan should not be *cajoled* into *reducing* its current account surplus. With Germany now in deficit, Japan is the last of the big savers. The more Japanese save the better.

Edward Balls

Tinker, tailor, soldier, banker

Sir Kit McMahon retired as executive chairman of Midland Bank last month, having struggled to overcome a disastrous legacy arising from the ill-judged takeover of Crocker Bank and the Third World debt crisis. But the hands-off management style the bank applied to Crocker also afflicted other parts of the group, including a shadowy trade finance subsidiary whose culture was fostered in part by executives with links to British Intelligence. An absence of accountability led to questionable commercial practices and large losses. Richard Donkin and Jimmy Burns report

Fifteen years ago a quiet Englishman called Dennis Skinner walked through the doors of Midland Bank in London to take up a management post before becoming the bank's representative in the Soviet Union. Seven years later his crumpled body was found at the foot of his Leninski Prospekt apartment block in Moscow.

A London inquest ruled that he was unlawfully killed. Shortly before his death he had passed a note to a neighbour urging her to inform the British Embassy in Moscow that there was a "spy in their own security forces". It added: "For God's sake do this or I'm dead".

Mr Skinner remains an enigma. Even Mr Geoffrey Taylor, chief executive of Midland at the time of Mr Skinner's death, says he was not privy to information on the former *Moscow representative*. He was "clearly a no go area", says Mr Taylor.

It now emerges that Mr Skinner was, in fact, recruited by Lord Armstrong of Sanderstead, Midland's chairman from 1975 to 1980. Lord Armstrong came to the bank after retiring as head of the civil service, where he had been widely regarded as the most powerful mandarin since the Second World War. As the man responsible for reorganising MI5 during the war he was intimately connected with the intelligence services.

Midland will still not admit to a connection between Lord Armstrong and Mr Skinner. But one former senior executive recalls a day after Mr Skinner's death in June 1983 when he reached into a cabinet and took out the dead man's personnel file. Inside it was empty except for a single note that referred to Mr Skinner's recruitment by Lord Armstrong. When the same executive inquired about the arrangements for death in service benefits he was quietly told that everything had been taken care of.

The government has never *acknowledged that Mr Skinner* was working for British intelligence. But there were strong indications from the inquest and the flurry of diplomatic exchanges after his death to suggest that he may have been a most effective spy, and that his loss was a blow to Britain's intelligence gathering efforts in the Soviet Union.

At the time of the Skinner affair, it seemed an isolated incident. But this is not the case. During the 1980s, Midland operated a secretive defence sales unit, which engaged men with an intelligence or military background. Surprisingly, the existence of this department was unknown to senior managers. Mr Geoffrey Taylor, the bank's chief executive when the unit was formed, insists he knew nothing about it.

The team was part of an export finance operation in Midland which suffered from mismanagement and fraud in the early 1980s. Both operations have since been run down, as Midland has struggled to focus itself on more conventional banking business.

The climate of secrecy within the bank also fostered

Midland operated a secretive unit, which engaged men with an intelligence or military background

the belief that, to quote one former senior executive, as a matter of rule "there were some things you didn't ask questions about". This same unquestioning approach also contributed to an atmosphere in which some doubtful corporate practices were swept under the carpet.

Much of this culture of secrecy centred on the bank's Midland International Trade Services (MITS) division, of which the defence finance department was part. The MITS operation was hit by a number of problems and losses in the 1980s, including a hitherto unrevealed Turkish fraud which *hit its Swiss office* (see below). These were put down to what some bank officials came to describe as "funny practices".

When Sir Kit McMahon took over as executive chairman of Midland in 1987 one of his objectives became to strip the bank of what a senior manager called "exotic consultants" and return it to a more traditional banking culture. Sir Kit began to wind down the defence finance team and it was disbanded altogether *last* year.

The secretive environment in which MITS and its defence finance department grew can be traced back at least to 1974 when Lord Armstrong joined the Midland board. He became chairman the following year and is one of the most visible examples of what appears to be a succession of senior Midland figures with intelligence connections that ran through the bank for many years.

During his time on the Security Executive that monitored the secret service from 1943 to 1946, he had responsibility for the reorganisation of MI5.

It was Lord Armstrong who, in addition to Skinner, recruited Sir John Cuckney, a non-executive director of Midland from 1978 to 1988. Sir John refuses to talk about his time in the intelligence services after the Second World War. But his early intelligence career as a "tough no-nonsense officer" in MI5 is recalled in Mr Peter Wright's book, Spycatcher.

From 1974 to 1985, Sir John was chairman of International Military Services, the government-owned defence sales company. In 1984, the year before he left IMS and during his period on the Midland board, the bank established its special department to handle defence finance. IMS was one of its clients. Asked if he lent advice to Midland on how to expand its defence business and if he knew of the team of consultants, Sir John refused to comment.

The Midland defence team, known as the Defence Equipment Finance Department, was formed partly to exploit the aggressive arms sales policies of the British government under *Mrs Margaret Thatcher* – especially to the Middle East and Asia – and partly to build Midland's links with a UK weapons industry that was coming under growing competitive pressure from abroad.

Mrs Thatcher was more directly involved *in arms sales* than many of her predecessors. This gave rise to an environment in which arms sales became a priority against which Whitehall found it difficult to object on foreign policy or financial grounds.

The Midland team was well placed to exploit this climate, as illustrated by the events surrounding the *signature* by Mrs Thatcher of a £1bn defence deal with Malaysia in 1988. Her visit was preceded by a team from Midland's defence department led by Mr Stephan Kock, together with Ministry of Defence and other officials and a small delegation from Britain's Special Air Services.

The main consortia were bidding for contracts for a proposed special forces base at Mersing, close to Malaysia's East Coast. "Kock was there to ensure that Midland got a big slice of the action," said one former official.

Mrs Thatcher only delivered her speech of appreciation for the Malaysian deal after the Foreign Office *had been successfully* lobbied by one of Midland's military consultants to include a couple of paragraphs about Midland's proposed role in the financing. She alluded to the financing of the defence package as being an entirely UK operation headed up by Midland Bank.

The deal itself caused concern in the Treasury, where some officials were unhappy at the way in which the dividing line between credit guarantees *for civilian and military aid* given to Malaysia had been blurred.

There is also a good deal of

The defence finance team had as many as six different locations within the bank *during* its five year existence

blurring about just who set up the Midland defence sales team. Midland says it was the brainchild of Mr George Barrett, an entrepreneurial man who, while a career banker out of the solid Midland mould, was always looking for new ideas in banking.

This, however, is a matter of some dispute. Midland's version is contradicted by Mr Barrett who says he cannot recall the existence of any such unit or any of the consultants attached to it. Many former Midland executives also deny knowledge of the department.

But the unit did exist and was used to arrange finance for UK defence exports. Mr Campbell Dunford, a former trade finance director at Midland, said the unit's formation was part of a deliberate strategy to compete more intensively with Morgan Grenfell in the defence *finance market*.

Midland recruited a number of experienced military veterans as consultants, engaged for their extensive defence contacts and knowledge of products. They were used to make initial approaches and introductions, and to describe the sort of services the bank could offer.

The defence team worked within an area in the Cannon Street complex which, according to some former staff, was *carefully veiled from other* parts of the bank.

Interviews with some of the former *officials* in the department suggest that Midland was perhaps the most enthusiastic of all the banks in its pursuit of defence export financing.

Midland's involvement in a £270m defence package to Jordan, arranged by IMS in 1988, was publicly criticised by opposition MPs last year. Mr Allan Rogers, a Labour defence spokesman, said that he had *warned the government two* years ago that British defence equipment supplied to Jordan was being passed on to Iraq.

"Now the evidence is there – recaptured material that could only have got to Iraq through Jordan." He said he had written to the prime minister's office to ask whether Mrs Thatcher had authorised preferential interest rates for Jordan. The office told him the information was commercially confidential.

Midland acted as the lead bank for financing some of the more sensitive Middle East countries. It won a tender to provide £250m in credits for Iraq over the five years to the invasion of Kuwait, when Sad*dam Hussain, Iraq's president* was engaged in a massive military expansion. Midland does not give a breakdown of its Iraqi trade financing but says that none of it was for defence exports.

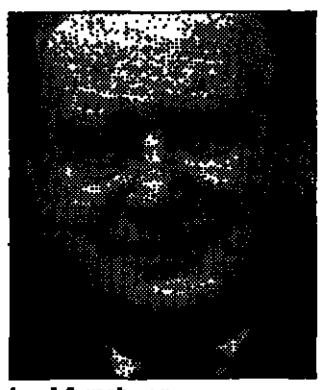
During the five years of its existence to 1990, the Midland defence team had as many as six different locations within the bank.

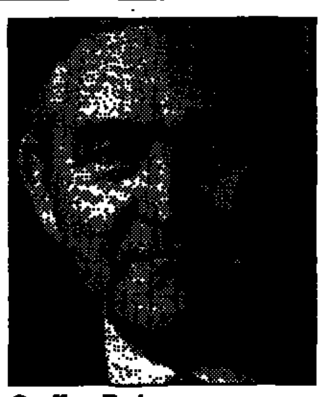
At its height the department's clients included Plessey, Astra and GEC. Plessey confirmed that during the 1980s it was among several UK companies to which the Midland unit had proved "helpful". The company added: "It is a pity there still isn't one. We found the department useful. We are *not* going to comment at all beyond that."

Midland's use of ex-military people to target specific defence contracts, on the other hand, did not impress its main rival, Morgan Grenfell, which took on career bankers to do such work during the 1980s. Senior Morgan Grenfell executives regarded the strategy of using military consultants as naive rather than sophisticated. "We believed them to be useless and unnecessary," *recalls one Morgan Grenfell* banker.

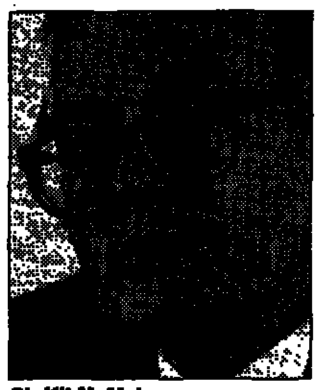
As for the man responsible for winding the team up, Sir Kit McMahon, he has chosen not to comment on his reasons for doing so, or on the intriguing relationship between the UK's listening bank and Whitehall.

KEY PLAYERS AND EVENTS


Lord Armstrong


Geoffrey Taylor


George Barrett


Sir Kit McMahon

● **1975-1980** Lord Armstrong of Sanderstead chairman of Midland Bank. He was responsible for reorganising MI5 during the *Second World War and was intimately linked* with British intelligence

● **1978** Dennis Skinner appointed Midland Bank representative in Moscow.
Sir John Cuckney appointed non-executive director of Midland. Described as a tough, no-nonsense officer in his early intelligence career with MI5

● **1982** Midland *International* Trade Services (MITS) formed. Geoffrey Taylor becomes Midland Bank chief executive
George Barrett becomes MITS chief executive.

● **1983** Dennis Skinner dies in Moscow

● **1984** Defence Equipment Finance Department (DEFD) created.

● **1986** Sir Kit McMahon appointed chief executive of Midland Bank.

● **1987-1991** Sir Kit McMahon chairman. DEFD run down and then eventually disbanded.

THE DEFENCE TEAM

Every consultant in the unit was a military veteran, highly professional in his respective *field*, though lacking in banking experience. The team members were not all there at the same *time - there were never more* than three consultants at any one stage. They were:

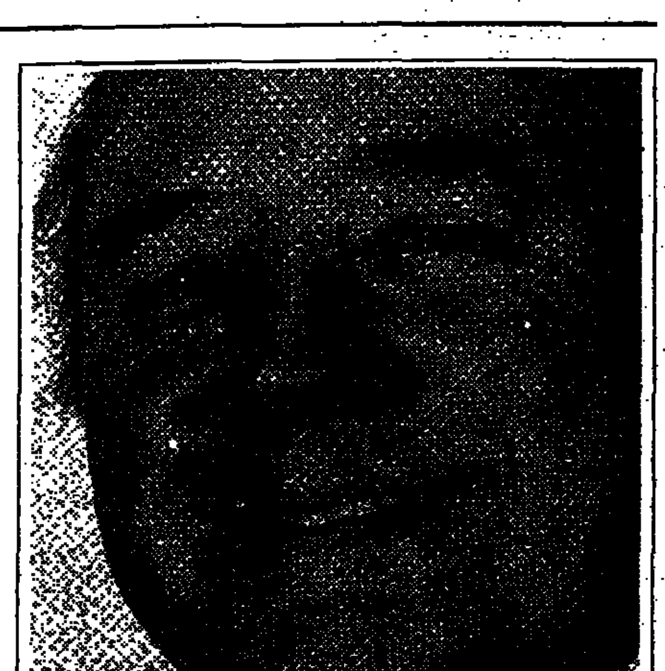
Mr Paul Cormack, a former wing commander in the RAF regiment, the non-flying arm of the service referred to rather unkindly by *their flying* colleagues as "rock apes". He was the only ex-military member of the team recruited to a full-time salaried post.

Mr Robin Hogg, a late recruit to the team after Sir Kit McMahon took over. He had been the vice-*admiral in charge of naval* operational requirements during the Falklands War and, before resigning from the service, was deputy commander in chief of the Fleet at Northwood. In 1986 he was involved in Global 86, a *promotional* tour of the third world for British defence contractors organised by the *Ministry* of Defence's Defence Export Services Organisation.

Brigadier John Shrimpton who was an assistant military deputy to the Defence Export Services *Organisation before joining the* bank. At the beginning of 1973 he took part in another of the government's floating exhibitions of military equipment which periodically sail around the world with the British Fleet on sales missions.

Mr Mike Williams, a former Air Commodore, who distinguished himself as a test *pilot* in his service career and was an RAF instructor at Cranwell.

Mr Stephan Kock, a former member of the Rhodesian Special Air Service Regiment. He had the most extensive business experience within the unit, including former directorships of Biddle Holdings, the lifts and heating group, and an existing non-executive directorship of Astra Holdings, the munitions and pyrotechnics manufacturer.


Stephan Kock: acute concern for his personal safety

Friendly smile that hides a volatile nature

ONE OF the Midland defence team's most interesting members was Mr Stephan Kock, a commanding man with a friendly smile that masks a more volatile side to his character. On occasions, *while contracted* as a consultant to Midland's defence sales unit, he overstepped the bounds of behaviour normally expected from a banker.

As a one time officer in the Rhodesian Special Air Service Regiment and personal adviser to Sir Edgar Whitehead, former Rhodesian prime minister, *he* has the military bearing of an old soldier, given to wearing SAS cufflinks and tie. He has been known to use a gun to make his point.

Mr Kock is currently a non-executive director of *Astra Holdings*, the UK munitions company. An internal Astra newsletter for employees says he "served in both the Air Force and Army, including service in military intelligence and special forces. Following his military career he carried out special assignments for the Foreign Office."

He is one of the few directors to survive the boardroom clearout after Astra's disastrous takeover of Poudreries Reunies de Belgique (PRB), the Belgian arms and explosives company. The deal is the subject of a Department of Trade and *Industry* inquiry.

On several occasions Mr Kock has boasted of his close connections with Mrs Thatcher. He told colleagues he was one of the few people trusted with the number of her private telephone when she lived at Number Ten.

Mr Frank Biddle, former chairman of Biddle Holdings, the air conditioning and lift company where Mr Kock was at one time a non-executive director, recalls one occasion *when Mr Kock claimed that* he had dined with Mrs Thatcher the previous evening. Mr Biddle, however, regards the claim as being slightly overblown. "I think there were a lot more people there besides," he says.

Despite Mr Kock's claim of impressive contacts and a sometimes fatherly approach *to his associates, he* is a man who has inspired fear among some of his colleagues. One of them describes him as "urbane, extremely polished, *charming, bluff, open and* hearty" and in the next breath admits that he experienced real fear after one telephone conversation with Mr Kock. "And I don't frighten easily," he says.

Indeed, Mr Kock has been at the centre of some bizarre happenings in recent years. In one of these, on January 15 1990, he was involved in a shooting incident.

He has used a gun to make his point

Two men were trying to repair a broken down van in the dark on a lonely stretch of road at Barbreck in Argyll, northern Scotland. A car approached *from a side* road and stopped. Mr Kock, who had been driving the car, got out and beckoned to one of the men, Mr Argyll MacMillan.

As Mr MacMillan approached the car, Mr Kock suddenly produced a semi-automatic pistol and shouted: "I'm a soldier you know."

An argument developed between the two men. Mr MacMillan shouted to his companion, warning that the man was armed.

At that point Mr Kock raised the gun and fired a single shot above their heads.

Mr *Macmillan, who lives in* nearby Clachan, says: "It's not the kind of thing that happens in the countryside in the middle of the night."

Police who made inquiries at the time describe the case as "very delicate", because of Mr Kock's intelligence and special services connections and the "big names" who provided references.

Mr Kock was still with the Midland defence sales unit at the time of the incident. He *left his* post with the team of consultants about a year ago.

His solicitor, at the court hearing following the shooting incident, said Mr Kock's defence work had *left him* with an acute concern for his personal safety. *Mr Kock was* fined £650.

Disquieting aspects of a fraud that got 'swept under carpet'

ON JUNE 12, 1985, the Turkish representative of Midland Bank in Ankara was summoned to the Central Bank of Turkey and told that one of Midland's subsidiaries had been brokering commercial paper for a number of dubious transactions.

What emerged over the next few days was evidence of a fraud related in part to business handled by the Swiss subsidiary of the bank's international trade organisation, called *Midland International Trade Services* (MITS).

At the heart of the fraud was a series of paper transactions widely used to pre-finance exports from countries like Turkey which have soft currencies. A Turkish company, it emerged, had been making trade financing arrangements to fund exports which never existed.

The Bank of England was alerted and Midland immediately flew out a team of internal auditors from London. The team put together what was considered one of the most sensitive reports the bank had ever produced. Each of the 10 copies was numbered and distributed to named executives.

The document showed that some £50m was at risk in Turkey. In the event the Turkish central bank agreed to compensate participating banks for the losses.

The disquieting aspect of the fraud, according to a senior executive who knew of the internal report, was not that it happened, or even that the bank had too few checks *and balances* when *it did* happen. What worried him was that Midland was "content to bury it."

It took two years before any Midland executive involved in the incident was dismissed. "The affair was swept under the carpet," says another former Midland executive.

Midland International Trade Services is a little known name outside Midland. But the problems that have dogged MITS go back more than a decade. Within the Midland Bank group it has been a longstanding source of controversy because of its unorthodox management style, *its disproportionately large losses* and the secrecy with which the Turkish fraud was handled.

It was regarded by people in the rest of Midland as a melting pot of colourful, exciting and at times downright odd banking practices.

It began life as the London and American Finance Corporation, or LAFCO. In the early 1980s it faced mounting losses and Mr Geoffrey Taylor, who became Midland's group chief executive in 1982, initiated a restructuring. A 25 per cent minority stake owned by Finance for Industry (FFI) was bought out (although FFI, now called 3i, retained a 25 per cent stake in LAFCO's US operation). At the same time LAFCO's name was changed to Midland International Trade Services.

Since Midland remained firmly committed to expanding its international business, Mr George Barrett, a Midland executive who had been in charge of aerospace, export finance and shipping, was appointed chairman of MITS, with a mandate to establish greater control over the operation and develop the business.

In an initial attempt to knock the company into financial shape the reorganised management team made provisions of more than £19m against losses in MITS subsidiaries in 1982. But the operation was not integrated closely into Midland Bank itself. It was, in the phrase of some Midland executives, a "bank within a bank". Mr Barrett, known in Midland as a tough, sharp banker, turned the company into his own fiefdom.

*This was not unusual in the Mid*land group. While the clearing bank itself was highly centralised and tightly controlled, Midland's non-bank subsidiaries had been kept on a loose rein. But the hands-off style of management in the international area proved particularly damaging and losses at MITS continued to mount.

Mr John Brooks, Midland's then deputy chief executive and Mr Michael Julien, the bank's first group finance director, set up an audit team to investigate losses that had surfaced in Mexico, Austria and elsewhere.

It was, says one former Midland executive, "a burning issue" within the bank; and had it not been for Midland's ill-fated takeover of Crocker National Bank in California in 1981 and the huge losses subsequently incurred there, the losses in MITS might have attracted more attention outside.

Harris and Julien's investigation led to further provisions being made against losses incurred in the group in 1983 *of nearly £48m. This* figure was equivalent to more than 20 per cent of Midland Bank's total pre-tax profit that year. It made the difference between an increase in profits and the decline, from £251m to £225m, that was actually reported.

Yet the figure was not disclosed in Midland's annual report. Nor was it referred to in Midland's annual filing with the the US Securities and Exchange Commission.

In the accounts of MITS and its UK subsidiaries filed at Companies House the losses do not appear on

MITS was a melting pot of colourful, exciting and sometimes downright odd banking practices

the face of the profit and loss account. They emerge in the small print of the notes relating to movements on reserves.

Despite the tremor that ran through Midland over the size of the 1983 *provisions, the trouble con*tinued. Simmering discontent in Midland at the lack of accountability in MITS was ignored – or worse.

Mr Rudi Bogni, currently chief executive of Swiss Banking Corporation, was chief financial officer of Midland when he was drafted onto the board of one of the MITS companies. A widely respected banker, he was nevertheless removed within six months by Mr Barrett after expressing misgivings about the way the operation was being conducted.

It was in this environment of poor accountability that the Turkish fraud came to light.

The specific worry for Midland lay in 15 transactions in which MITS had agreed to broker paper brought to it by a Geneva company called Okemex. Okemex was a subsidiary of Hortas Desan, an Ankara company owned by Mr Kemal Horzum who was later extradited from Switzerland and jailed in Turkey for embezzling $80m from Emlak, a Turkish bank guaranteeing the commercial paper.

*Hortas Desan had a water bott*ling plant and some of the paper was purportedly being used to finance its exports.

The problem was that there never were any exports to make the profits with which to pay back the bank *for its finance*.

An important step in executing the fraud was that Okemex found a big name bank to broker the paper. MITS Switzerland took the Okemex paper willingly, even though an experienced Geneva trader called *Ocean Trade, which also specialised* in brokering Turkish trade finance transactions, had earlier declined to become involved, claiming that the transaction was not what it purported to be.

Ocean's suspicions were subsequently confirmed when Emlak admitted that it had been defrauded by one of its managers. The Okemex paper had been guaranteed by Emlak's small branch in the Ankara suburb of Kizilay. More specifically it had been guaranteed by Mr Fikrit Ongen, the branch manager.

One of the features of the fraud was that MITS Switzerland had been content on 15 occasions to confirm the commercial paper against Mr Ongen's personal telex number at his home.

Bank procedures require officers to check the numbers of confirming telexes in a special manual that lists numbers at bank head offices for that very purpose. It was clear to the auditors and to those that read and digested the report of Midland's internal auditors that someone in MITS Switzerland had been acting extremely oddly to have confirmed the commercial paper time and again at the Kizilay manager's home.

It took just five days over a long weekend between June 12 and June 17 1985 for the team to examine the transactions. But it was not until the following August and after five progressively sanitised drafts, that a final report was issued, warning that payment of claims might be withheld "because of alleged criminal practices at the Kizilay branch end".

Midland's formal exposure appeared at first sight to be small at a little under £1m. But the real exposure was potentially far greater because Midland had brokered the paper to other international banks, including Citicorp and Security Pacific. If those banks *had not been* compensated by the Turkish authorities for their losses in the £50m fraud they might have been tempted to look to Midland for recompense.

Even now Midland will not admit to any more than a minor problem in Turkish trade financing. Yet several aspects of the fraud left lingering disquiet in parts of the Midland group. One was the poor profit, £350,000 on turnover of £45m, that MITS claimed to be making on this type of trade financing. Why also did no *one* at *MITS* Switzerland check the Okemex paper with Midland's Ankara representative, as had happened in earlier proposed transactions involving Turkish paper?

When the parent company of the MITS group came to sell most of its subsidiaries in the late 1980s it recorded a loss of more than £42m on the transaction. Today many of the original 23 companies within the independent trade finance operation have been relocated in the Midland Bank group. Midland's nagging problem over the past decade or more has been that it generates less profit for every pound of capital than its main rivals.

The losses incurred by MITS over a long period cast additional light on that problem and raise important questions for shareholders about an apparent lack of management accountability when Mr Geoffrey Taylor was group chief executive; about the degree of disclosure; *and as* to the effectiveness of the employees and consultants in the defence finance team.

UK NEWS

Warning of EC threat to small companies

By Charles Batchelor

MANY SMALL UK companies risk being forced out of business because of the high cost of meeting European Community requirements for product standardisation and certification, a report from the Institute of Directors warns.

Companies will have to comply with EC standards to qualify for a Community Mark if they want to sell their products throughout the community.

The report, published today, says the European Commission has overlooked the distortion to competition which was likely to arise between smaller and larger companies as a result of the moves to set community-wide standards backed by a certification process.

In many instances the cost of inspection and certification would not be insignificant, the report warns. For some smaller companies, particularly those engaged in craft industries, the combined cost of monitoring equipment, inspection and certification could be so high as to threaten the existence of the business.

This would be a disincentive to the enterprise economy and would almost inevitably lead to a reduction in consumer choice.

The institute fears that inspectors may concentrate on prosecuting minor infractions of the rules and on monitoring products manufactured outside their own country.

This would distort competition, devalue the entire standardisation process and threaten a loss of support from the business community for the internal market.

Technical Standardisation in the European Community. Director Publications. Tel 071-730 6060. £15.

Retailers back VAT reclaim plan

By John Thornhill

MANY retailers, including Ratners Group, Dixons, Gieves & Hawkes and Mappin & Webb, are backing a campaign to raise awareness among overseas visitors to the UK of VAT rebate schemes

Few foreign visitors from non-EC countries seem to be aware of their entitlement to a full refund on the VAT they spend on purchases.

Spending in the UK by overseas visitors has risen from £1bn in 1979 to £1.85bn in 1986 but represents a declining share of the total spent in Europe.

Europe Tax Free Shopping, a private company which operates a cash refund service at London's Heathrow airport on behalf of several retailers, estimates that the UK's share has fallen from around 35 per cent to 27 per cent.

It suggests that overseas visitors are deterred from spending more in the UK because they believe it has high prices. It says three quarters of them do not reclaim VAT.

Record for National Savings

By Philip Coggan, Personal Finance Editor

THE TOTAL invested in National Savings accounts and certificates reached a record of £37.14bn at the end of June, topping the previous high in October 1988.

There was a net addition to funds of £147.3m in June, largely because of extra investment of £115.4m in index-linked certificates, the subject of a television advertising campaign. All the other accounts and bonds made net additions except for the fixed-interest certificates and the ordinary account. Children's bonus bonds, announced in the Budget, went on sale after the compilation of the latest figures.

Mr John Taylor, the director of savings, is retiring in October and is to be replaced by Mr David Butler, the deputy director.

Treasury in move to correct model of the economy

By Peter Marsh

THE TREASURY has asked an outside team of economists to correct flaws in its computer model that simulates how the economy works, in an effort to improve the government's forecasting performance.

The move reflects worries in the Treasury about its poor record, which it shares with many private-sector forecasters, about predicting the extent of the economic surge of 1986-88 and the current recession.

The analysis by Strathclyde University's economics department follows concern by some economists that the Treasury has paid insufficient attention in recent years to researching underlying trends in the economy.

Led by Professor Simon Wren-Lewis, the Strathclyde team is looking at how industrial activity and the supply of labour affect important economic variables such as inflation and the trade deficit.

The work, due to be finished in the autumn, is aimed at improving on mathematical equations in the Treasury's model which are thought to operate poorly in representing what happens in the economy.

The study is believed to represent the first time in recent years that the Treasury has contracted to an outside group a fundamental piece of work on maintaining its model – which is a set of computer software linking hundreds of economic variables.

In recent years, the Treasury has reduced its efforts in research that could be applied to maintaining its model – an important element in its twice-yearly forecasts, although judgments and policy assumptions also play a important role. Much of the work was cut around 1987, during the time of Mr Nigel Lawson as chancellor.

Professor Mike Wickens, an economist at London Business School, said the Treasury's fundamental work on research "had gone downhill" over the past few years.

"The Treasury seems a bit rudderless [in its approach to economics research]," said Prof Wickens, a former chairman of the Treasury's academic panel, which acts as a bridge between government economists and academic researchers.

Mr Peter Spencer, a former Treasury economist who is UK economist at Shearson Lehman, a City stockbroker, said the Treasury had failed to do its homework on understanding the economy.

The Treasury said it had contracted the work on its model to the Strathclyde team because its own internal economics efforts were aimed mostly at short-term issues concerned with policy. Virtually all forecasters had had difficulty maintaining economic models in recent years due to fundamental changes in the economy, and the Treasury was no exception.

Prof Wren-Lewis said his study could be expected to provide new ideas on how factors such as wage levels, investment and industrial capacity influenced demand patterns and inflationary pressures.

Rug is pulled from carpet capital

Michael Cassell looks at the shake-out one town is experiencing as its main industry runs into falling sales

Impact of recession

KIDDERMINSTER

KIDDERMINSTER feels as though the recession has pulled the rug out from under its feet. Optimistic talk in Britain's carpet capital of an early end to the economic downturn is wearing thin.

Sandwiched between the creeping urban sprawl of the West Midlands and the River Severn, "Kiddy" is being squeezed by the same pressures affecting local economies around the country.

Of the 24 Chambers of Commerce in the West Midlands, Kidderminster's is usually ahead in detecting changes in the economy: "The first thing to suffer when the money gets tight is the carpet. They will always last a bit longer if they have to," says Mr Geoff Kershaw, chairman of the local chamber.

The Kidderminster Shuttle – a local newspaper, not an airborne commuter route for Birmingham business people – carries weekly evidence of hard times. There are insolvency notices, "bargain, bargain sales", and pages of homes looking for buyers in a housing market which resolutely refuses to buck up.

Mr John Andrews, associate partner in Doolittle & Dalley, a local estate agency well-used to jokes about its name, says prices are down by as much as 10 per cent and a spring revival has faded away. "Which way it goes from here is anybody's guess, interest rates are down but people with jobs are wondering whether they are going to keep them. Confidence is the key and there isn't any."

Wyre Forest district council is feeling the the sharp end of the shake-out. Mr Alan Dick, the chief executive, reports a "very marked increase" in the number of people seeking local authority accommodation, many because their homes have been repossessed.

Even having a good time is more difficult in bad times, with attendances falling away at the local leisure centre. To add insult to injury, the town's first-eleven cricket team has just been thrashed by 10 wickets in the Birmingham league knockout cup.

Kidderminster is not the worst commercial blackspot in a region which did very well out of the 1980s, but it is being given a salutary reminder that the economy has yet to have steady, sustained economic growth.

Unemployment has risen from less than 4 per cent to about 9 per cent in less than 18 months. The number of job vacancies has fallen sharply and most of the carpet manufacturers – which no longer dominate the local economy but remain a significant part of it – are on short-time working.

There are bright spots. Brintons Carpets, founded in 1873 and the largest employer in the Wyre Forest district, is looking beyond the current problems. The company plans to move into new headquarters which will allow for further expansion and ensure it the successful future which has eluded some of its competitors.

The most spectacular casualty so far is Crossley, one of the largest UK quality carpet makers, which was acquired by Coloroll in 1987 as part of its ill-fated acquisition of the John Crowther textile group. Three years later, Coloroll was in receivership and 1,100 Kidderminster jobs were lost.

The aftershocks continue. Crossley carpet stock is still swamping the market, making life still harder for the other manufacturers. The local papers still carry advertisements asking for ex-employees to make contact to protect their pension benefits.

Mr Kershaw says only 15 months ago employers were worried about shortages of manpower and of skills. But he reckons things are now as bad as they were during the last recession, and they will get worse: "There has been an element of confidence based on the belief that the government would not be stupid enough to let this situation continue in the run-up to an election.

"But the belief now is that the recession is deeper and has moved faster than ministers ever envisaged. They may now be reaching for the brake but they can't find it and we are still going downhill."

There has, however, been a broadening of the area's economic base, with new high-tech businesses establishing themselves and a growing furniture-making sector making good progress.

Small-business formations have also been encouraging and the council reports that its "starter" units on three sites remain almost full.

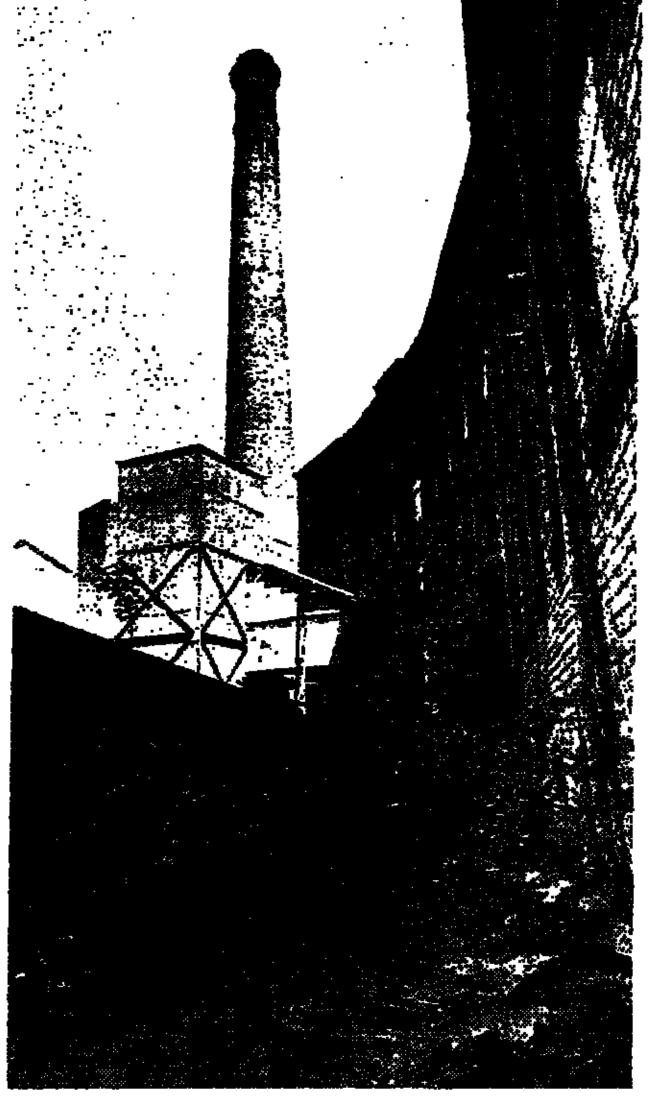
Mr Anthony Coombs, Conservative MP for Wyre Forest, thinks the gloom is a bit overdone, and recalls a local unemployment rate as high as 16 per cent in the early 1980s.

He acknowledges that the local economy is suffering but says the position is "difficult, not cataclysmic".

He will not be pinned down on the timing of an upturn but adds: "When it happens, it will happen much more quickly than people anticipate."

Given the approaching general election, it cannot be soon enough for Mr Coombs.

The first article in this series appeared on July 8.



Stacked up: "Kiddy" still faces an economic squeeze

Economic gloom seen to lift in north-west

By Ian Hamilton Fazey, Northern Correspondent

THE RECESSION has clearly slowed and may have bottomed out in north-west England, the largest economic region in Britain after the south-east, according to results from a preliminary quarterly survey by the Manchester Chamber of Commerce and Industry to be published today.

The survey covers Greater Manchester and most of Lancashire, an area largely responsible for the north-west's 10 per cent contribution to the UK's gross domestic product.

The chamber's survey of the second quarter of this year shows that, while more than 40 per cent of businesses reported continuing falls in deliveries and orders, about a quarter reported higher sales than in the first quarter.

Mr Alfie Kane, chamber president, warned: "It is difficult to find encouragement. We know from our daily contacts that many expect a long period of difficult trading before the market turns. Construction and building suppliers are particularly hard hit."

A similar survey last month showed a comparable bottoming out on Merseyside. Another suggested beginnings of an upturn in the West Midlands.

The Manchester survey shows an upward trend in manufacturing exports for the last three successive quarters, although the "downs" still outnumber the "ups".

Home markets remain more difficult for manufacturers – the opposite to the service sector, where export markets are tougher. Turnover and profit forecasts in both sectors; however, are positive and show strong upward trends.

Shedding of labour also appears to have bottomed out in manufacturing and services.

● In the east Midlands the number of companies expecting to shed labour continues to increase, according to a survey by the East Midlands Chambers of Commerce, writes Paul Cheeseright. In June, 27 per cent expected their workforce to decrease, against 23 per cent in March and 13 per cent a year ago.

Downturn in financial services expected to last until 1992

By Richard Lapper and Rachel Johnson

THE financial services sector is still in recession with no prospects of an upturn until 1992, according to a survey published today.

The joint survey by the Confederation of British Industry, the employers' organisation, and Coopers & Lybrand Deloitte, the consultancy firm, discloses that business confidence has fallen again in June after a sharp improvement in March – dashing previous hopes that the decline in business volumes would end between April and June.

In spite of the government's insistence that the economy is on track for recovery in the second half of the year "hopes of an imminent end to the downturn have been dashed", says the survey, which was carried out last month before the government cut interest rates by half a percentage point on Friday.

The Treasury made a particular effort to downplay the latest gloomy news about the state of the economy. It said the survey, which has only appeared seven times, was of unproven reliability.

It stressed that the survey's business confidence result of minus 13 per cent – the balance between the 19 per cent which were "more optimistic" and the 32 per cent which were "less optimistic" than they were three months ago – was "the second best reading ever".

Companies were less pessimistic now than at any time in 1990, but confidence "continued to weaken", according to the report. The business confidence of building societies, however, strengthened over the past nine months.

Although the decline in output in the second quarter was slower than in the three months to March 31, financial services companies continue to be severely affected by the low level of demand.

Among other results of the survey, which concludes that business in financial services was still declining but at a slower rate, were:

● The banking sector is worst affected. Falling business volumes and continuing high levels of bad-debt write-offs have offset benefits gained from reduced costs and increased charges.

Of the banks questioned, 60 per cent raised their spreads in the last quarter – tending to confirm claims that cuts in base rates are not being passed on to customers. Some 45 per cent of respondents increased the value of their fees and commissions. Fifty-two per cent of banks surveyed expected profitability to continue to fall.

● Building societies are beginning to benefit from lower mortgage rates, while a handful of life insurers report an improvement in their new business figures.

● Overall operating costs remain a difficulty for many financial services companies, and most sectors have shed labour. Only building societies, venture capitalists and insurance brokers have bucked the trend.

● Further shedding of staff is expected during the next three months in banking, life insurance and fund management.

MMC stalls over driving the right price

Kevin Done steers a route through the claims and counter claims over new car prices

THE Monopolies and Mergers Commission entered a minefield when it began its current investigation into long-standing claims that car buyers are forced to pay higher prices for new cars in the UK than in many parts of continental Europe.

The latest detonation comes from consultants acting for Vauxhall, the UK subsidiary of General Motors of the US, which challenges a main part of the work already undertaken by the MMC.

The complications the MMC is encountering have already forced it to postpone completion of its final report by three months to the end of October.

The car makers are fighting back to show that the study on which the MMC has based its controversial preliminary findings is flawed, and that UK new car prices are not significantly out of line with those charged in continental Europe.

The picture has been further confused by the outbreak of a price war in response to the slide in UK new car sales during the recession.

Several car makers and importers led by Ford, Nissan UK, Vauxhall and Fiat have cut the prices of selected cars by up to £2,000, suggesting that they too accept that some prices are out of line with what buyers are prepared to pay.

Much of the car maker's struggle with the MMC has taken place behind closed doors, but UK car makers and importers are uncomfortably aware that they are losing the public battle.

Earlier this year the Financial Times disclosed the contents of a confidential study commissioned by the MMC from Ludvigsen Associates, the UK-based automotive analysts, which claimed that the pre-tax prices (adjusted for differing levels of equipment) of some cars in the UK such as the Ford Fiesta and the Rover Metro were more than 50 per cent higher than in the Netherlands.

These were the extreme cases, but the report referred to many models where UK prices were 20 per cent to 30 per cent higher. The figures for the comparison were from October 1990.

The question now is whether the MMC decides that these Ludvigsen comparisons are credible. The findings are being challenged by another report, from A.T. Kearney, the management consultants.

The report was commissioned by Vauxhall, which is placed second in the UK new car market behind Ford.

The Kearney study is based only on price comparisons for GM cars in Europe – badged as Vauxhall in the UK and Opel in the rest of Europe. It must be broadly applicable to other marques, however, as car makers inevitably price against each other, normally taking the market leader – Ford in the UK – as the benchmark.

The Kearney study shows that UK, pre-tax, on-the-road prices for Vauxhall cars are in line with those charged for the equivalent Opel models in much of continental Europe.

The price for a Vauxhall Cavalier L 1.6, for example, was £7,280 compared with £7,186 for the equivalent Opel Vectra model in Belgium, £7,350 in the Netherlands, £7,584 in France and £7,654 in Germany.

For a Vauxhall Astra L 1.4 the UK price was £6,411 compared with £6,266 in Belgium, £6,304 in the Netherlands, £6,601 in France, and £6,636 in Germany.

The Kearney study was based on May 1990 figures when cheap finance was also available in the UK and Germany for some Vauxhall/Opel models.

If the buyer chose the cheap finance route the Vauxhall Astra cost £5,739 in the UK and £6,578 for the equivalent Opel Kadett GL1.4 in Germany.

The Kearney study challenges the methodology adopted by the MMC and Ludvigsen Associates. Only on one point is there no argument. The so-called "list prices" for new cars in the UK are higher than elsewhere in Europe, but Kearney and Vauxhall maintain that such prices are academic and the actual price paid by buyers is broadly similar.

Kearney and Ludvigsen adopted different approaches to establishing the pre-tax, on-the-road, price. Pre-tax prices are compared because tax regimes vary from country to country.

There are many other variable factors, however, in making pan-European car price comparisons. The most important which vary from country to country are:

● Equipment specifications.

● Dealer discounts.

● Costs of putting the car on the road.

● Availability of cheap finance.

● Fluctuations in exchange rates.

To establish what discounts might be available, Ludvigsen Associates and the MMC organised a telephone survey in which dealers were contacted, in their own language, with the caller posing as a cash buyer with no trade-in. The callers were asked to be insistent about obtaining a sizeable discount.

Kearney and Vauxhall claim such an approach is flawed – people do not buy cars over the telephone; the majority of private new car buyers are not cash buyers but use finance packages; and in return they trade in a used car.

By contrast the Kearney study was based on actual transactions. The consultant had access to GM's European invoice records and says its study was based on dealers' sales of 98,000 vehicles to retail customers.

It claims that its findings for the UK are consistent with invoice and consumer surveys conducted by the MMC in the UK. It states that the dealer discount – and therefore the margin for haggling by the customer – has always been much higher in the UK. For a Vauxhall Nova in the UK the average discount given by dealers is nearly 11 per cent. In the Netherlands it is nearer 6 per cent.

Exchange rates can also play a vital role in confusion over car prices. In April 1990 there were DM2.76 to the pound. By August the rate was DM2.98 to the pound, a fluctuation worth £500 on the price of a new Astra.

Mr David Wallis, Vauxhall's business planning director, said: "You must look at what people pay for cars. On that basis the UK does not compare unfavourably."

Comparative prices

	UK	GERMANY	FRANCE	BELGIUM	NETHERLANDS
Model	Astra L1.4 5 door Non-cat	Kadett GL1.4 5 door Catalytic	Kadett GL 1.4 5 door Non-cat	Kadett GL1.4 5 door Catalytic	Kadett GL1.4 5 door Catalytic
List price including tax	8749	7407	7764	8276	8988
List price excluding tax	7023	6497	6211	6621	6333
Equipment adjustments		482	257	314	233
EA list price excluding tax	7023	6979	6468	6935	6566
Discounts from dealer	13.7%	7.1%	2.8%	9.8%	6.5%
On-the-road costs	350	152	314	11	164
On-the-road price excluding tax	6411	6636	6601	6266	6304
Financing support	672	160			
On-the-road with financing	5739	6578	6601	6266	6304

Poster contractors in talks on co-operation

By John Thornhill

A FURTHER phase of consolidation in Britain's outdoor poster industry could result from talks on a co-operation deal between two of the biggest contractors.

Arthur Maiden, the second largest contractor, is in talks to handle the sales and marketing for National Solus Sites' 2,600 48-sheet poster stock.

Such a development would give Maiden control of about 36 per cent of the 48-sheet (20ft by 10ft) poster market and would further complicate the task of the Monopolies and Mergers Commission investigation into the industry.

Earlier this month, Mr Peter Lilley, trade and industry secretary, referred Mills Allen's acquisition of Brunton Curtis to the commission. The takeover meant that Mills Allen, the UK's largest poster contractor which is owned by Avenir Havas Media of France, controls selling rights over 39 per cent of the 48-sheet market.

Mr Michael Holme, Maiden managing director, said the possible link with National Solus Sites was one of a number of options. He estimated Maiden controlled a 28 per cent share of the 48-sheet market compared with NSS's 8 per cent to 9 per cent.

The outdoor poster industry accounts for 4 per cent of UK advertising expenditure.

UK NEWS

BROADCASTING

Yorkshire TV makes bid of £34m to keep franchise

By Raymond Snoddy

YORKSHIRE Television has made a bid of around £34m a year in an attempt to retain its *franchise*.

The bid looks high enough to win the competitive tender for the new 10-year commercial broadcasting licence for the Yorkshire area to run from 1993.

Yorkshire Television faces rival bids from Viking and White Rose, two companies planning to depend heavily on independent producers for their programmes.

When the bids were submitted to the Independent Television Commission in May, White Rose – shareholders of which include Chrysalis, the record group, and two local newspaper companies, , had not completed its financing.

White Rose has to produce full details of its financing plan before an ITC meeting starting on Thursday which will review progress on assessing the 40 bids for 16 broadcasting licences.

The winners and the size of their bids will be announced in October.

It is not clear if Viking, backers of which include TVS, an independent production company, and Barr and Arnold Wallace Trust, has completed its financing.

Mr Clive Leach, managing director of Yorkshire Television, has deliberately made a very aggressive bid to try to ensure victory.

The size of the bid could become embarrassing, however, if neither Viking nor White Rose pass the quality threshold all applicants must get over before their cash bids are considered.

In addition to the £34m bid Yorkshire – shareholders of which include Pearson, publisher of the Financial Times – has to pay an addition seven per cent of its advertising revenue to the government as "rent" for the franchise.

In the first half Yorkshire had pre-tax profits of £6.2m advertising revenue of £68.42m.

Yorkshire also has a 20 per cent stake in neighbouring Tyne Tees Television which bid £14.5m for its franchise. This will defeat a rival bid by Granada and Border Television believed to be around £10m.

Yorkshire plans an agreed merger with Tyne Tees which can happen from January, 1992 with ITC approval.

Anglia Television is set to win back its franchise with a bid of between £15m and £16m – probably just under £16m. Its main rival Three East, backed by Emap, the newspaper and magazine group and CLT, the Luxembourg based media company, has bid less than £15m; the third bid of the region, the Richard Branson/David Frost consortium CTV-TV bid less than £12m.

Even though publicly quoted companies are involved the ITC has said it wants the bids to remain secret until it reveals them. Apart from Yorkshire, Tyne Tees and Anglia three other bids have become public knowledge.

TVS Entertainment has bid £55m for its south of England franchise while the bids of its three rivals are in the £20-35m range.

NorthWest Television has bid £35m for th north west franchise, outbidding Granada Television's sum of less than £20m.

Scottish Television, which was unopposed, bid less than £1m to retain its franchise.

Privatised utilities defend pensions

By Robert Peston

TWO OF Britain's biggest privatised utilities yesterday moved to defend the retention of public sector-style pension arrangements for their directors.

British Gas and British Telecom both have pension arrangements which give the directors inflation-proof or index-linked payments on retirement, it emerged at the weekend.

Schemes operated by British Telecom and British Gas have continued to be guaranteed against the effects of inflation after the companies' privatisation.

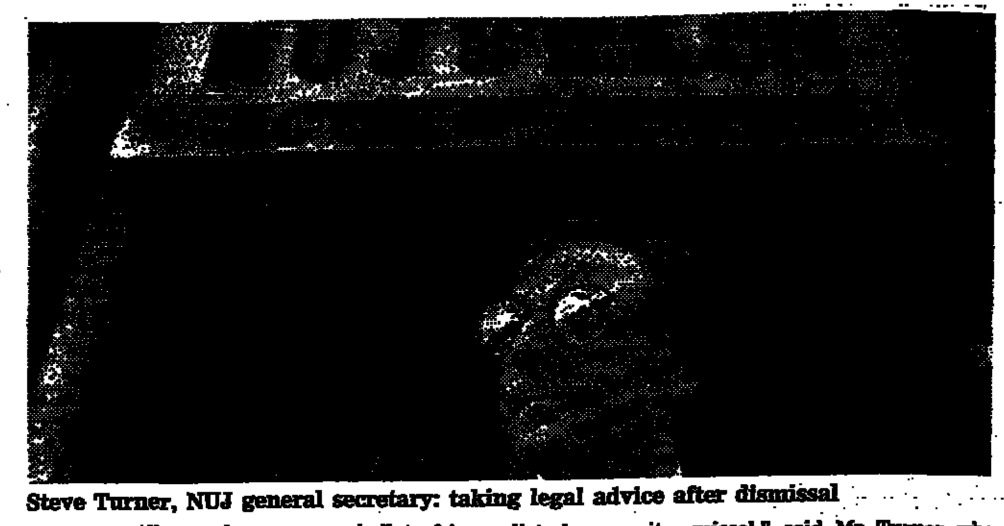
The pay of both companies' directors has soared. Last year, Mr Iain Vallance, chairman of British Telecom, received £536,000, 43 per cent up on the previous year. British Gas's chairman, Mr Robert Evans, was paid £370,000, an effective rise of 66 per cent.

British Telecom said Mr Vallance's eventual pension would not be calculated on the £536,000 he received but on approximately £380,000.

British Gas said it did not believe its pension arrangements were out of line with those of other big companies.

Union chief dismissed by vote of executive

By Lisa Wood, Labour Staff



Steve Turner, NUJ general secretary: taking legal advice after dismissal

MR STEVE TURNER, general secretary of the National Union of Journalists, was yesterday taking legal advice after being sacked by his executive committee.

The executive of Britain's largest journalists' union, at a meeting on Saturday, took the rare step of voting by 10-9 to dismiss its general secretary.

Mr Chris Frost, president of the NUJ, said that Mr Turner, who campaigned for office on a platform of not merging with other trade unions, had flouted the agreed union policy which supported such mergers. It is

Mr Turner was allowed in his contract to campaign within the NUJ against mergers but was prohibited from doing so externally.

The executive accused him of breaking his contract by writing to the Irish Print Union asking it to put off a merger until members were balloted.

Legally the amalgamation with the IPU does not require a ballot of journalists because it is a "transfer of engagements" and not a formal merger.

"I intend to fight my dismissal," said Mr Turner who has been at odds with his executive since taking up office in December.

Flexible working patterns still lag behind the world

By John Gapper, Labour Editor

BRITAIN has very few manufacturing plants which have achieved "world class" flexible working patterns and quality production despite changes in production methods over the past decade, according to a new study.

The study of plants in Britain, Japan, the US and Europe found that only 22 of a sample of 405 manufacturing plants in which production methods have changed over the past 10 years have developed *suitable* working arrangements.

Mr Michael Cross, a visiting fellow of the Manchester Business School, argues that British plants have not linked their manufacturing and personnel strategies, and working arrangements have not been used to improve processes.

The unpublished study compares plants in Britain to those elsewhere using production quality measures common in the US. These analyse companies according to criteria such as how well workers are used, and the quality of leadership.

The database of manufacturing sites in Britain where there have been significant production changes includes data on whether there has been a move towards working in multi-skilled teams, or there is a greater sharing of skills.

Multi-Skilling and Flexibility. Michael Cross, 20 Amherst Road, London W13.

Targets on training lose council support

By Lisa Wood, Labour Staff

Howard: abandoned targets

ABOUT one third of Training and Enterprise Councils (Tecs) have decided not to sign up to new national targets for the attainment of vocational qualifications which have been developed by the Confederation of British Industry.

The targets will be made public by the CBI later this month. They seek to replace former government targets, drawn up by Mr Norman Fowler, the former secretary of state for employment, which had wanted a minimum of half the employed workforce to be qualified to level three of the National Vocational Qualification (NVQ) by the year 2000.

Those targets were abandoned last year by Mr Michael Howard, the secretary of state for employment, who said they were inappropriate because government had devolved responsibility for training to Tecs.

Since then the CBI has sought support from industry and training organisations over aspirational targets, modelled on the former government targets.

About 100 organisations including Tecs, education bodies, chambers of commerce and industry training organisations have already signed up.

The Trades Union Congress has not yet decided whether it will sign. It claims that the government has recently watered down the CBI's original proposal that all young people should be entitled to train for skills up to NVQ level three by insisting on the insertion of a clause that means only people "who can benefit" would be given the opportunity.

Mr John Cridland, deputy director of education and training at the CBI, said yesterday: "Government officials along with others pointed out that as of today a universal entitlement was not deliverable because it would require Tecs to spend more money than they have."

Applicants for jobs fail to provide accurate CVs

By Diane Summers, Labour Staff

NEARLY half of all job applicants for senior finance, information technology and marketing jobs fail to produce curriculum vitaes which do them justice, according to an analysis of 1,000 CVs.

The most common mistakes are long-windedness and a failure to tailor applications: 41 per cent of those analysed produced four or more pages, rather than the optimal two to three; 46 per cent did not attempt to highlight relevant qualifications and experience for the particular post.

Information technology applicants are the worst culprits on both counts, according to the analysis carried out by Coopers and Lybrand Deloitte. Over 80 per cent of IT applicants failed to tailor their CVs and they also produced among the worst-looking applications.

Overall, less than half provided a daytime telephone number and only 40 per cent gave their current salary, even though this had usually been requested.

A quarter were not explicit about their educational attainments, nor had they made it clear whether or not they were still in employment.

The best CV-producers are finance and marketing executives; the least informative are general managers, the survey found.

Oddities highlighted were the candidates who: covered the CV in drawings; sent a graph of salary progression; used computer or exercise paper; sent application forms from another employer; enclosed psychometric test results and press articles of doubtful relevance.

MANAGEMENT

Jerry Shively takes a retrospective look at what he describes as his 'most unhappy professional experience' as an independent director of Sketchley, the dry-cleaning group

Confessions of a non-executive

Nearly four years ago, I was flattered to be asked by John Gillum, a former director of N.M. Rothschild, the merchant bank, to put myself forward as a candidate for the other non-executive directorship of Sketchley, the dry-cleaning and textile services group. I hoped that my background with Johnson Wax and McCann-Erickson Europe would lend some additional marketing perspective to the board which, other than Gillum and I, was composed solely of full-time employees.

My first impression was positive. A relatively new and aggressive management team was anxious to use acquisition as a tool of company growth, while maintaining enough profit to keep dividends high (and presumably the share price up).

There was a recognition that costs needed to be cut in all divisions, and services and quality across the group improved. There was even some sense of social responsibility – cleansing fluids are bad "green" news. It all looked good and I joined with enthusiasm.

Some while later, I recalled what my old boss Sam Johnson, the major shareholder of Johnson Wax, once said to me: "The primary job of the non-executive director is to avoid disaster." Bearing in mind that to accept the position is to accept the responsibility – that is to say the buck still stops at the board whether composed of executive or non-executive directors, I still now ask myself what other questions might I have asked to avoid that very thing at Sketchley?

So far I have only come up with a few extra questions that John or I might have asked – but did not. It is the answers to the questions we did ask that worry me – and not just those from the professional managers.

Managers and directors have basically three things with which to work: information, instinct, and experience. An airline pilot must believe his instruments rather than rely on instinct. That analogy may well apply to business. But perhaps instinct would have been more useful than the information we were getting; this consisted of well presented monthly management accounts at each board meeting followed by a well organised report for each division presented by the group managing director.

These reports seemed to indicate no problems other than the vagaries of the weather on the dry-cleaning business. The company did, however, seem to be in a bit of a buying and selling frenzy. This prompted John Gillum and me to suggest it slowed down, and prove to the City that it could be successful in the businesses it had already bought. It was agreed, albeit a bit reluctantly, because buying is, after all, more fun than managing!

The next big purchase was a vending company to be added to the existing vending business which was deemed too small to be viable or competitive. At that time, John and I questioned quite deeply a number of issues, including inventory values. "Enough allowances had been made," was the answer given at a board meeting. No one questioned that.

After the purchase had been made, however, it transpired that accounting practices had been utilised which, after investigation by auditors and our own financial people, were deemed to be very deficient. For example, it would have been much wiser to write down returned machines to zero value and take the benefit of any subsequent resale rather than bring them in at an inflated value which gave the overall inventory a very false picture – a million pound error of both management and professional advisers.

Should we non-executives have been more persistent in challenging the company's managers? The answer is yes

Should we non-executives have been more persistent in challenging the company's managers? The answer is yes, but having asked, and received, answers, we failed to press our queries.

At about this time a couple of other warning lights came on which, although subtle, were probably worth more thought than we gave them. The first was at my first annual general meeting when, in response to a naive but well-intentioned question, the then chairman, Malcolm Glenn, gave what to me was a very curt, nearly rude response. As he is normally a nice, kind man, I was rather shocked at what seemed to me a poor effort at shareholder public relations.

Maybe it was symptomatic of an attitude which said: "Management knows best – we don't need to explain". Possibly this view also prevailed with respect to non-execs: "Tiresome but a required necessity".

The second clue was the well-presented and carefully argued case of the operating directors justifying their three-year contracts. "Normal practice these days; protects the company from piracy," was the argument. Did management know something the rest of us didn't? In my last industry, advertising, we deplored even a one-year contract – but I reluctantly gave up my quest to make changes because I was assured that the contracts were already in place before Gillum and I had arrived and probably couldn't be changed in any event. In retrospect, I wish I had pursued this further.

Another recent acquisition had been made on an "earn-out" basis. Thereupon the ex-owner left with some other employees and the loss of quite a lot of business. Why had management not anticipated this development more effectively? Managers are there to manage so they should have known what was going on – and non-execs there to question.

I'm sure one problem was that we only ever heard from the top directors – usually the chief operating executive of all the divisions and not from individual heads of each division. Perhaps, if we had demanded to be briefed by each divisional chief, we would have had more inkling of impending disaster – or perhaps there was inadequate management at several levels, not just at the top.

A well-researched study by Malpas, the management consultancy, indicated that the main business was sound, but greater profits were to be reaped by a few relatively simple changes, and some restructuring. Again the non-execs heard only the summary of this study from the CEO and only after asking for it. It would have been far better if Malpas had delivered its conclusions to the full board – and a few questions then might have switched on some red lights. Blissfully we cruised on.

One day I received a call from Glenn who wished to convene an extraordinary board meeting to discuss a "rather alarming indicated reduction in profits from an estimated £14m to 'considerably less'".

This meeting, held in my home, was indeed alarming. Within two months the profits forecast had dropped to perhaps £8m. All the divisions were down but the real villain of the piece was Vending, despite the fact that great synergy from the acquisition was supposed to have resulted in much greater efficiency. How familiar those words are. I wonder how many lousy acquisitions have been based on such vague generalisations? That first distressing meeting was to be followed by a number of others each producing a more disastrous prognosis than the one before.

John Gillum and I could not understand this amazing about-turn in such a short space of time. The auditors had failed to expose the shoddy accounting and management practices in Vending which were a great part of the problem. Obviously, management had not either.

As we, the non-executives, were considering the next steps which would have included new management of some form, incredibly, almost within the week, Godfrey Davis, the textiles, car dealing and building services group, surfaced unsolicited, and in February 1990, made what was, in retrospect, a fair bid. At that time, however, we did not feel it was adequate, based on the inherent value in the brand name Sketchley and the fact that Godfrey Davis, in order to raise the finance for the deal, had to sell off its motordistribution division. We turned the offer down, but Godfrey Davis withdrew anyway when our profit projections were revised downwards to about £6m.

When that white knight disappeared we were surprised a week later by a lesser offer from Compass, the catering and restaurant services group; we had approached Compass earlier but were spurned. In the meantime, John Gillum and I had decided that Sketchley had no credibility under its present management and that changes should be made – starting at the top.

To sack the entire management team (a suggestion from Mercury, one of the UK's leading investment management concerns and the major 20 per cent shareholder) may have been justified by the poor results but made no operational sense whatsoever.

This lead me to wonder if fund managers and bankers really know anything about actually operating a company. I wondered why any fund would own 20 per cent of one company – and then not have a single one of its directors on the board. I wish it had, but I doubt it would have changed things and might again have simply pointed out how terrifyingly dependent we are upon professional advice. And how bad some of that can be.

Glenn offered his resignation as chairman, which was accepted. For operational reasons we retained the other directors, and in March 1990 John Gillum took the chair. We recommended to the board that the Compass offer should be rejected as inadequate, still assuming that our profits would be at least £6m for the year. Compass let its bid lapse anyway after receiving a remarkably poor response from Sketchley shareholders, who thus demonstrated considerable loyalty to the company.

Jerry Shively: hoping to lend some additional marketing perspective

Meanwhile Gillum and I had been in discussion practically every day, searching for alternative management teams. Several emerged and a few were interviewed. To me the best was a company which was also in the service industry, had a good proven management and obviously wanted a long-term involvement. Further, it was largely privately held and the owner was willing to stake his entire fortune on the combined company.

It looked good to me, but Mercury, for undisclosed reasons, refused to go along with it. At this point any solution needed the support of the three main shareholders which together controlled 34 per cent of the company.

An alternative management group, John Richardson, Tony Bloom and David Davies, surfaced. Although they were expensive, Gillum and I had no hesitation in recommending them to the main shareholders and ultimately to all the shareholders. We have no doubt that they will eventually turn the company around, based upon two very sound legs, cleaning and textile services, and what has been learned about two others (vending and office services).

John and I did not offer ourselves for re-election, although both of us would have preferred to stay long enough to ensure the turnaround was complete. The pressure from the main shareholders was, however, unequivocally to start with a clean slate – understandable but perhaps ill-advised. I hoped that we would be replaced by at least one representative from the major shareholder companies, but to date this has not happened.

Thus ended a saga which, for me, has been perhaps my most unhappy professional experience. It proved frustrating because I was unable to get at the underlying reality of the business picture, and disappointing because I lost faith in professional advisers and to some degree my ability to judge executive competence, particularly where there was weak accountancy back-up.

The job of the non-executive director is perhaps "money for old rope" when all is well and management is competent – and surely our job is to ensure competent management; but when the trouble starts, the non-executive holds the company together. He does this at a great cost in terms of time and effort, for very modest reward, wishing most of the time that he did not have the job in the first place.

In retrospect one has to wonder what would have happened to Sketchley if there had been no non-executive directors. Obviously, the non-executive directors should fulfil an important role, but somehow the semi-involvement is fraught with peril.

Many companies have an audit committee of the board. Sketchley did not, but I doubt if it would have unearthed the real problems any more quickly. For example, the auditors were asked three times by Rothschilds, Sketchley's bank, whether they were sure the year-end profits could not fall below £6m (for purposes of preparing the Compass defence document). Less than two months later we were told there would be a loss of £2m. The explanation given for this was "a change in management perception". Flying on these kinds of instrument is very hazardous.

Perhaps two and a half years is not long enough to validate one's instincts – and I had always thought mine were pretty good. I would conclude, however, that non-executive directors must take a very aggressive stance on every "judgmental" issue if they wish to avoid surprises. I would consider John Gillum one of the most astute financial minds I have ever encountered, yet even he was not able to react quickly enough to misinformation.

I hope this article will prompt some thinking and possibly some reconsideration of the role and responsibility of the non-executives who, in my opinion, should take up most of the seats on the board of a public company. They should include representatives of the largest shareholders when significant holdings occur as was the case with Sketchley. The pleasures of success are many, the pain of failure is enduring.

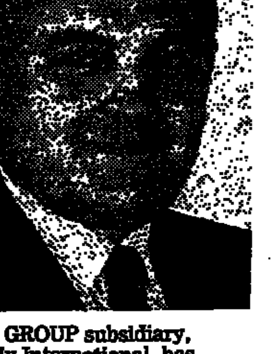
Jerry Shively is the chairman of Shandwick Marketing Services.

APPOINTMENTS

Treasurer of The Wellcome Foundation

■ THE WELLCOME FOUNDATION has appointed Mr Richard Edge as group treasurer from September 1. He joins from Tioxide Group, where be was general manager finance, Tioxide Europe.

■ Mr Andrew Scobbie has been appointed chairman of ORIGO SERVICES, Edinburgh, following the retirement of Mr Maurice Paterson. Mr Scobbie is managing director of Britannia Life.

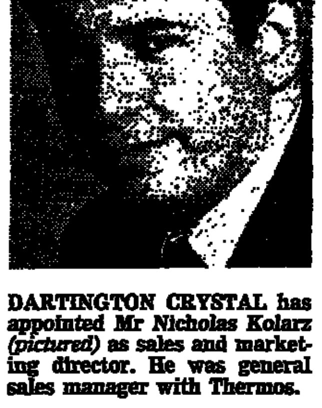


■ TI GROUP subsidiary, Bundy International, has appointed Mr T. Peter Whitehead *(pictured)* as managing director of Bundy, in Heidelberg. He was managing director of Bundy UK, and previously was managing director of former TI subsidiary, TI Cox.

■ C.L.C. GROUP, Southampton, has launched The Conservatory Company, to build hardwood conservatories, and appointed Mr Phil Malins, Mr Mike Longhurst, and Mr John Goble as directors.

■ Mr Laurence Herbert, managing director of Longman Law, Tax & Finance; Mr Mark Todd, who manages Longman Industry & Public Service Management; and Mr Andrew Stevenson, who heads Churchill Livingstone, have all been appointed to the UK board of LONGMAN GROUP UK, Harlow.

■ LONDIS has made the following promotions: Mr Adrian Browne, to trading director, central distribution, from trading controller; Mr John Taylor, to trading director, drop shipment, from trading controller; and Mr Steve Tulley to retail development director from retail development controller. They join the company's operating committee.



DARTINGTON CRYSTAL has appointed Mr Nicholas Kolarz *(pictured)* as sales and marketing director. He was general sales manager with Thermos.

■ Mr David Carrington has been appointed to succeed Mr Barry Till as director of the BARING FOUNDATION on Mr Till's retirement. Mr Carrington is director of the Housing Association Charitable Trust.

■ Mr Nicholas Webster has been appointed chief executive of Baird Textiles. He was finance director of WILLIAM BAIRD, where he is succeeded by Mr Andrew Mills-Baker who was finance director of Wickes.

■ Mr Martin Landau has joined the board of *WILSON (CONNOLLY) HOLDINGS* as a non-executive director. He was executive deputy chairman of Imry Merchant Developers.

■ Mr Adrian Bradshaw *(pictured)* has been appointed chairman and chief executive of MMI. He was a main board director of Arbuthnot Latham Bank, and managing director of the bank's corporate finance division. Mr Giles Hargreave, a non-executive director, has resigned.

■ Mr Graham Mattinson has been appointed managing director of PPP BEAUMONT, a chain of private nursing care centres for the elderly run by Private Patients Plan. He was at Parasol Corporation, subsidiary of Allied Breweries, where he managed 92 hotels and restaurants.

■ Mr Norman Donkin *(left)* has been appointed managing director of AT&T Vehicle Leasing - Europe. He was managing director of Lease Plan UK. Mr David Watson *(right)* has been appointed director of finance of parent company AT&T CAPITAL HOLDINGS. He was finance director of the Canadian Imperial Bank of Commerce leasing and finance companies in Europe. Ms Kim Dicks becomes an assistant director of AT&T Capital Holdings. She was with the leasing and asset financing division of Kleinwort Benson.

■ Mr Richard Osborne *(pictured)* has been appointed managing director of CENTRAL TRAILER RENTCO INTERNATIONAL, a subsidiary of Tiphook. He was director of corporate development at Tiphook, and succeeds Mr Rodney Stoyel who has resigned.

■ SEDGWICK JAMES (LONDON) has appointed Mr Anthony Clarkson as commercial director.

■ GATEWAY FOODMARKETS has appointed as associate directors: Mr Damien Harte, finance; Mr Peter Deering, systems; Mr Ted McCabe, distribution; Mr James Grant, business development; and Mr Alistair Forbes, merchandise.

■ Mrs Susan Fogarty has been appointed company secretary of CLERICAL MEDICAL AND GENERAL LIFE ASSURANCE SOCIETY in addition to her post as group solicitor. Mr Eric Hodson *(pictured)* becomes finance director. He was director of service and systems.

■ THE ORION INSURANCE COMPANY, Folkestone, has appointed Mr Stephen Thistlewood to the new post of general manager (London market). He was group managing director of the London and Hull Maritime Insurance Company, and the Axa Insurance Company.

■ Mr Rob White-Cooper, deputy chairman, Sedgwick James, has been elected president of THE INSURANCE INSTITUTE OF LONDON, and *Mr Philip Rhodes*, deputy general manager, General Accident, has been elected deputy president from October 7.

SECURICOR OMEGA EXPRESS has promoted to sales director Mr Bernard Wilson *(pictured)*, general manager, UK parcels' sales.

THE WEEK AHEAD

ECONOMICS

Focus switches to G7 and the UK economy

ATTENTION this week will centre on the Group of Seven annual economic summit in London. The market impact of the meeting, which is not expected to concentrate on the rise of the dollar or the need for lower global interest rates, is not expected to be great.

However, there will be discussion of the global savings shortage, and in view of the recent appreciation of the dollar against the D-Mark, the G7 could seek to reinforce its commitment to cap the dollar if necessary.

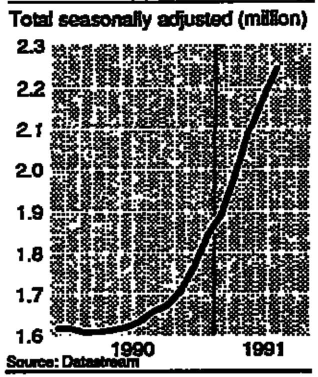
Even without the summit, it is an extremely busy week for the world's biggest economies. Unemployment data is due to rise by 70,000 in in the UK, while industrial production data should show the economy is still bumping along the bottom, justifying last Friday's cut in the bank base rate to 11 per cent. This is putting downwards pressure on wages, with the rise in average earnings across the economy expected to ease to 8.5 per cent in May.

Other events and statistics, with market forecasts from MMS international, the financial research company in brackets, include:

Today: UK, formal start of G7 summit. Japan, May revised industrial production, June money supply (3.3 per cent, y-o-y). US, May business inventories (0.5 per cent). Spain, competitiveness pact negotiations between government, unions, and business starts. US, business inventories, auto sales.

UK unemployment

Total seasonally adjusted (million)



Source: Datastream

Tomorrow: Political declaration of G7 summit. President Gorbachev arrives. France, provisional consumer prices (3.3 per cent, y-o-y). US, June industrial production (0.5 per cent) and capacity use (78.9 per cent). Fed chairman Greenspan's semi-annual Humphrey/Hawkins report on economy to House Banking Committee. UK, public sector borrowing requirement for June (£1.7bn).

Wednesday: UK, day three of G7 summit. Mr John Major reads economic declaration. Mr Gorbachev has bilateral breakfast meeting with French President Mitterrand, meets Japanese Prime Minister Kaifu. US, June consumer price index (0.2 per cent), housing starts (100m), building permits, June real earnings.

Thursday: Japan, May personal consumption and income. Canada, May trade balance. UK, May industrial production (down 0.7 per cent), manufacturing output (down 0.4 per cent), June money supply (M0 0.4 per cent, M4 0.2 per cent m-o-m, M4 lending £2.5bn), June unemployment (70,000), May average earnings (8.5 per cent), unit labour costs (11.5 per cent, 3-month average) and productivity statistics. France, industrial production for May (down 0.5 per cent). US, merchandise trade for May (down $5bn), money supply for July. Peru, main union due to stage nationwide strike against government's economic policies.

Friday: Paris, Paris club discusses Jamaican request for rescheduling of over $100m official debt. Canada, June CPI.

During the week: Japan, wholesale prices index, trade balance. Germany, June producer prices.

Rachel Johnson

RESULTS DUE

TODAY Tomkins, the mini-conglomerate with interests ranging from lawnmowers to handguns, is likely to report pre-tax profits for the year to May of £109m (£77.1m) with 25.7p of earnings and a 9.5p dividend, according to James Capel. Earnings will have been helped by eight months contribution from Philips Industries, the US industrial group, and a £7m jump in net interest earned.

Pre-tax profit is expected to fall by a third to just over £8m at Triplex Lloyd, the Midlands engineering group, which reports its results for the year to March 31 tomorrow. The announcement has been put back a day because of the funeral of the late chairman Mr Jim Doel, who died of a heart attack last weekend.

The profit shortfall, compared with £12.2m pre-tax in 1989-90, will reflect the sale of a steel casting business, a much smaller property contribution and Triplex's exposure to recession-hit building and consumer-related sectors.

Ellis & Everard, the UK's biggest chemicals distributor and one of the largest in the US, announces results for the year to end-April today.

After having progressively downgraded forecasts for the effects of the recession on both sides of the Atlantic, analysts now expect pre-tax profits to come out at about £17.5m. Largely thanks to acquisitions, that will be still up from £15.4m in the previous year. ICI has a 26.5 per cent stake in the company.

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Airflow Streamlines, Northampton Moat House, Silver Street, Northampton, 12.00
Body Shop Intl., Beach Hotel, Marine Parade, Worthing, 11.00
Drummond, Norfolk Gardens Hotel, Bradford, 12.00
Gates (Frank G.), Woodford Moat House, Oak Hill, Woodford Green, Essex, 12.00
Hicking Pentecost, Credit Lyonnais Laing, Broadwalk House, 5, Appold Street, E.C., 10.15
Norcros, Ironmongers' Hall, Shaftesbury Place, Aldersgate Street, E.C., 12.00
TVS Entertainment, Savoy Hotel, Strand, W.C., 11.00
BOARD MEETINGS:
Finals:
CRT
Dalepak Foods
Ellis & Everard
Shoprite
Tomkins
Tyndall Hldgs.
Interims:
Automated Security
Central Motor Auctions
Invicta Sound

■ **TOMORROW**
COMPANY MEETINGS:
Argyll Group, Savoy Hotel, Strand, W.C., 12.00
Bio-Isolates, Royal Horseguards Hotel, 2, Whitehall Court, S.W., 11.30
Cable & Wireless, Grosvenor House Hotel, Park Lane, W., 11.00
Courtaulds, London Marriott Hotel, Duke Street, W., 10.45
Foster (John), Black Dyke Mills, Queensbury, Bradford, 12.30
Great Portland Estates, Cafe Royal, 68, regent Street, W., 12.00
PCT, Gleddoch House Hotel, Langbank, Renfrewshire, 12.00
Salvesen (Christian), Sheraton Hotel, Festival Square, Edinburgh, 11.00
Thames TV, Waldorf Hotel, Aldwych, W.C., 12.15
BOARD MEETINGS:
Finals:
Baileys
Birse
Electron House
Matthew Clark
Multitone Elects.
Nobo
Standard Platform
Triplex Lloyd
Wood (John D.)
Interims:
Eurotherm Intl.

■ **WEDNESDAY JULY 17**
COMPANY MEETINGS:
Bertam Hldgs., Tubs Hill House, London Road, Sevenoaks, 12.00
Cassidy Brothers, Mitcham Road, Marton, Blackpool, 3.00
Dawson Intl., Caledonian Hotel, Edinburgh, 12.00
Drayton English & Intl. Trust, 11, Devonshire Square, E.C., 10.00
Elliott (B.), Butchers Hall, Bartholomew Close, E.C., 11.00
Fleming High Inc. Inv. Trust, Chartered Accountants' Hall, Moorgate Place, E.C., 12.00
Johnson Matthey, 2-4, Cockspur Street, Trafalgar Square, S.W., 11.00
Pilkington, Prescot Road, St Helens, Merseyside, 2.30
Plysu, Tallow Chandlers' Hall, 4, Dowgate Hill, E.C., 12.15
Stoddard Sekers Intl., Glenpatrick Road, Elderslie, Renfrewshire, 12.00
BOARD MEETINGS:
Finals:
Bulmer (H.P.)
Hewetson
Moorgate Inv. Trust
Interims:
General Cons. Inv. Trust
EFM Java Trust
Microgen Hldgs.
Scottish American Inv.

■ **THURSDAY JULY 18**
COMPANY MEETINGS:
Acal, Plaisterers Hall, 1, London Wall, E.C., 12.00
British Telecom, Royal Centre, Nottingham, 2.00
Cook (William), Cutlers Hall, Church Street, Sheffield, 12.00
Cullen's Hldgs., Novotel, 1, Shortlands, W., 10.30
Dares Estates, Reading Moat House, Mill Lane, Sindlesham, Wokingham, 10.00
Heath (C.E.), Baltic Exchange, 14-20, St. Mary Axe, E.C., 10.00
Meyer Intl., Strand Palace Hotel, Strand, W.C., 12.00
Osborne & Little, 304, King's Road, S.W., 11.00
Powell Duffryn, Waldorf Hotel, Aldwych, W.C., 12.00
Premier Cons., Chartered Accountants' Hall, Moorgate Place, E.C., 12.00
Reed Intl., Savoy Hotel, Strand, W.C., 12.00
Southnews, 328, Station Road, Harrow, Middx., 12.00
Waddington (John), Glaziers Hall, 9, Montague Close, London Bridge, S.E., 12.00
BOARD MEETINGS:
Finals:
Brasway
British Bloodstock Agency
Elbief
Goode Durrant
Grahams Rintoul Inv. Trust
Hampson Inds.
Jones Stroud
Joseph (Leopold)
Peel Hldgs.
Stanley Leisure
Interims:
Tribune Inv. Trust
Trust of Property Shares
Witan Inv.

■ **FRIDAY JULY 19**
COMPANY MEETINGS:
British Inv. Trust, 4, Melville Crescent, Edinburgh, 12.15
Brown Shipley, Founders Court, Lothbury, E.C., 12.30
Etonbrook Props., Clifton Ford Hotel, Welbeck Street, W., 10.00
Martin Currie Euro. Inv. Trust, 29, Charlotte Square, Edinburgh, 12.00
Property Partnerships, Hotel Norwich, Boundry Road, Norwich, 11.30
Readicut Intl., Institute of Directors, 116, Pall Mall, S.W., 12.30
Seton Healthcare, Periquito Hotel, Oldham, 11.00
Sterling Inds., Cayzer House, 1, Thomas More Street, E., 12.30
BOARD MEETINGS:
Finals:
Black Arrow
Interims:
Grosvenor Dev. Cap.
Selective Assets Trust

■ **SATURDAY JULY 20**
COMPANY MEETINGS:
Vosper Thorneycroft, Victoria Road, Woolston, Southampton, 11.00

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Agricultural Mortgage Corp. 6¼% Db. 1992/94 3⅛pc.
Do. 5½% Db. 1993/95 2¾pc.
AmBrit Int. 9% Cv. Un. Ln. 1996 4½pc.
Amber Day 0.9p
Am. Medical Int. 9⅞% Un. Ln. 2011 4$\frac{15}{16}$pc.
Anglo Irish Bank Ir1.36p
BCE 64cts.
Barclays Bank 12% Un. Cap. Ln. 2010 6pc.
Barlow Rand 61cts.
Bradford & Bingley Bldg. Scty. Fltg. Rate Nts. 1999 £299.18
Chrysler 15cts.
Churchbury Ests. 4.2% Cm. Pf. 2.1p
Clarke Foods 8% Cv. Un. Ln. 1997 4pc.
European Colour 0.4p
Evode 7p Cv. Cm. Rd. Pf. 3.5p
Ferguson Int. 8.25p
Govett Strategic Inv. Tst. 10⅜% Db. 2016 5$\frac{3}{16}$pc.
Halifax Bldg. Scty. Fltg. Rate Nts. 1995 £299.18
Helical Bar 5.25% Cv. Cm. Rd. Pf. 2012 2.625p
LASMO 9⅝% Cm. Rd. Pf. 4.8125p
Land Securities 14.25p
Life Sciences Int. 8% Cm. Cv. Rd. Pf. 4p
Lon. Atlantic Inv. Tst. 2.08p
Lucas Inds. 10¾% Un. Ln. 1992/97 5⅜pc.
M & G Div. Fd. Inc. 0.63p
Mid Kent Hldgs. 4p
Mid-States 2.25p
Morgan (J.P.) 49.5cts.
Do. Idr 49.5cts.
Motorola 19cts.
Murray Int. 3.9% Cm. Pf. 1.95p
North Surrey Water 4% Db. 2pc.
Do. 4¼% Db. 2⅛pc.
Do. 5¼% Db. 2⅝pc.
Do. 7¼% Rd. Db. 1991/93 3⅝pc.
Occidental Pet. 25cts.
Pacific Gas & Elect. 41cts.
Perkins Foods 4p
Quaker Oats 39cts.
Quebec Central Railway Cap. 2.5pc.
Rolls-Royce 4.7p
Royal Tst. Govt. Sec. Fd. Ptg. Rd. Pf. 1.4p
Smart (J.) 2.15p
SmithKline Beecham A 3.75p
Sweden (Kingdom of) 11% Ln. 2012 5½pc.
Tollgate 14% Un. Sb. Comp. Cv. B Db. 7pc.
Do. A Db. 7pc.
Tootal 3.05p
Treasury 9½% Ln. 1999 4¾pc.
Utd. Uniform Servs. 1.5p
Witan Inv. 3.4% Cm. Pf. 1.7p

■ **TOMORROW**
Anglo & Overseas Tst. 4½% Cm. Pf. 1.575p
Delyn 1p
European Inv. Bank 9% Ln. 2001 (Reg) 4½pc.
Fenner 3.45p
Foster (John) 0.5p
Gates (Frank G.) 2.75p
Hewden-Stuart 2.175p
M & G Second Dual Tst. Inc. 10.67p
MEPC 5.25p
McLeod Russel 2.75p
Skopbank Ser. A Und. Sb. Var. Rate Nts. $173.78
Treasury 8½% Ln. 2007 4¼pc.

■ **WEDNESDAY JULY 17**
Bank of New York Overseas Fin. Gtd. Fltg. Sb. Nts. Jan 1996 $154.83
Barclays Bank Und. Fltg. Rate Prim. Cap. Nts. Ser. 3 £7752.14
Barings Gtd. Fltg. Rate Cap. Nts. 2001 $389.65
Coles Myer Fin. 9½% Sb. Cv. Bd. 1997 A$3.15
Fluor 8cts.
Grt. Portland Estates 6.6p
Korea Liberalisation Fd. 5.45cts.
Leeds Permanent Bldg. Scty. Fltg. Rate Nts. 1994 £149.90
Nat. Bank of Canada Fltg. Rate Dep. Nts. July 1991 $196.40
Nationwide Anglia Bldg. Scty. Fltg. Rate Nts. 1996 £149.28
Okabank Osuuspankien Kekuspankki Var. Rate Sb. Nts. 2000 $167.15
Royal Bank of Scotland 2.8p
Sanwa Int. Fin. Gtd. Fltg. Rate Nts. 1993 $3852.53
Treasury 2½% I.L. 2024 £1.6638
Ulster TV 3.75p
Wells Fargo Fltg. Rate Sb. Nts. July 1997 $159.57
Young (H.) 2p

■ **THURSDAY JULY 18**
Aberdeen Tst. 1p
Asahi Breweries Fltg. Rate Nts. 1996 Y364479.0
Craig & Rose 13p
Echlin 17.5cts.
Henderson Admin. 27.5p
Mid-Sussex Water 4.9%
Max Addl. 2.45p
Nat West Bank Und. Var. Rate Nts. 6.925pc.
Northern Rock Bldg. Scty. Fltg. Rate Nts. 1995 £148.81
Plysu 3.15p
Throgmorton Dual Tst. 1.75p
West Kent Water 3.5% Cons. 1.75p
Do. 3.15% Rd. Pf. 7.875p
Do. 2.8% Pf. Post 1945 14p
Do. 2.8% Pf. Pre 1945 14p

■ **FRIDAY JULY 19**
Aust. & New Zealand Bank 10cts.
Burton 2p
Capital Radio 1.75p
Daily Mail & General Tst. 29p
Do. A N/Vtg. 29p
Devenish (J.A.) 1.2p
Drayton English & Int. Tst. 2.3p
Dundee & London Inv. 3.8p
East Surrey Water 5p
European Project Inv. Tst. 0.2p
Exchequer 9¾% 1998 4⅞pc.
McCarthy & Stone 0.5p
Randfontein Estates 40cts.
Scottish Inv. Tst. 1.5p
Spandex 3.75p
Tongaat-Hulett 50cts.
Treasury 2% I.L. 2006 £1.87
Wells Fargo 100cts.
Westbury 5.75p
Witwatersrand Nigel 40cts.

■ **SATURDAY JULY 20**
Elys (Wimbledon) 9¾% Un. Ln. 1995/99 4⅞pc.

■ **SUNDAY JULY 21**
Exchequer 10¼% 1995 5⅛pc.
Fleming Fledgling Inv. Tst. 6¼% Db. 1988/93 3⅛pc.

PARLIAMENTARY DIARY

■ **TODAY**
Commons: Progress on remaining stages of the Finance Bill. Motion on the Fair Employment (Amendment) Northern Ireland Order.
Lords: School Teachers' Pay and Conditions (No 2) Bill, report. Social Security (Contributions) Bill, third reading. Motion on companies (disclosure of interests in shares) regulations. Question on adult education.
Select committee: Environment — subject, eco-labelling. Witness: Tony Baldry MP, Envir'ment Under Secretary (Room 8, 4.15pm).

■ **TOMORROW**
Commons: Conclusion remaining stages of the Finance Bill. Lords Amendment to the Criminal Justice Bill. Opposed private business.
Lords: Export and Investment Guarantees Bill, committee. Rights of Access to Neighbouring Land Bill, second reading.
Committee on Opposed Private Bill: London Docklands Railway (Lewisham etc) Bill (Room 6, 10.0am.

■ **WEDNESDAY**
Commons: Plaid Cymru debate on the future structures of government in Wales. Proceedings on the Foreign Corporations Bill. Consideration of Lords Amendments to the Coalmining Subsidence Bill.
Lords: Local Government Finance and Valuation Bill, report. Age of legal Capacity (Scotland) Bill, committee. Question to government on support for tourism.
Select committees: Welsh Affairs — subject, government expenditure for Wales 1991-92/1993-94. Witness: David Hunt MP, Welsh Secretary (Room 8, 10.30am).
Transport — subject, London Transport. Witnesses: chairman and officials, London Transport (Room 8, 4.15pm).
Committee on Opposed Private Bill: London Docklands Railway (Lewisham etc) (Room 6, 10.0am).

■ **THURSDAY**
Commons: Child Support Bill, remaining stages. Debate on parliamentary pensions.
Lords: Dangerous Dogs Bill, report. Ports Bill, third reading. Atomic Weapons Establishment Bill, third reading.
Committee on Opposed Private Bill: London Docklands Railway (Lewisham etc) Bill (Room 6, 10.0am).

■ **FRIDAY**
Commons: Debate on wider choice and higher standards in schools.
Lords: Finance Bill, second reading and remaining stages. Breeding of Dogs Bill, second reading.

CONSTRUCTION CONTRACTS

Building Croydon museum

Work on a £14m library and museum contract for Croydon Council has been awarded to TAYLOR WOODROW CONSTRUCTION (SOUTHERN).

The five-storey building in Mint Walk will be constructed in a traditional red-brick design to blend with the adjoining town hall. When completed in autumn 1993, the *new library and museum building* will house 150,000 books and historic documents.

The 9,000 sq metre complex will have a cafe, shop and facilities for displaying local and national art treasures and exhibitions.

Mechanical services

MATTHEW HALL MECHANICAL & ELECTRICAL ENGINEERS has been awarded a £9m contract to install mechanical, electrical and fire engineering services for Vintners Place at Queen Street Place, London EC4.

The seven-storey development comprises around 300,000 sq ft and will include offices, a leisure complex and galleria.

Work on the project is due for completion in September 1992.

Vintners Place is a joint venture company between Wates City of London Properties and Sumitomo Co-operation (UK).

Waste treatment

MOWLEM ENGINEERING, Wirral, has won four separate waste and effluent treatment contracts worth £9m in total. The largest, at £4.4m, is being carried out in conjunction with Mowlem South East Civil Engineering and Wainwright and Gibson and involves automating and upgrading 120 small works in the Home Counties.

Cardiff Docks canal

Major works on a feeder canal at Cardiff Docks is included in projects, worth over £4m, awarded to TARMAC CONSTRUCTION.

The company is having to ensure a vital supply of 90m gallons of water a day to the docks while the feeder canal is diverted.

The £830,000 contract, placed by South Glamorgan County Council, covers the realignment of 340 metres of the canal that keeps the Bute Docks topped up and the cargo ships tied up alongside afloat.

Redeveloping Lombard Street

COSTAIN E & C subsidiary companies have been awarded UK contracts in the past month worth over £140m. Three of these contracts together are worth over £105m.

Costain Construction has been awarded a substantial contract by Fleetway House Construction Management for the redevelopment of the Barclays Bank head office site in Lombard Street, London.

The new office building will comprise three towers of 17, 8, and 5 storeys, each finished with a barrel-vaulted roof. *There will be two further levels* below ground providing a total area of 40,800 sq metres.

Existing raft foundations will be re-used to support the steel framed building. External walls will be finished with curtain walling incorporating natural stone and metal cladding. The shell of the new building is due for completion in spring 1993.

Costain Engineering has signed a contract valued in excess of £25m with Enron Gas Processing (UK) for the design, supply and construction of a natural gas processing plant to be installed at Seal Sands on Teesside. The plant will condi*tion 400 mmscfd of natural gas* from the central area transmission system.

Costain Construction has also been awarded a contract, worth in the region of £6m, by MEPC and Norwich Union Life Insurance Society for the refurbishment of the Mill Gate shopping centre in Bury, Greater Manchester.

The work will comprise the refurbishment of the 1960s open-air shopping precinct to include the enlargement and extension of some of the 75 shop units, the enclosure of a portion of the existing centre with glazed roofing and the subsequent installation of mechanical, electrical and sprinkler services together with new floor finishings.

New educational facilities for Sheffield

Construction work on "Campus 21", the first phase of what is believed to be the largest building and redevelopment programme to be undertaken in higher education since the creation of the new universities, is due to start in Sheffield at the end of the month.

This follows the signing of a partnership agreement structured by legal advisors to Sheffield City Polytechnic, Cameron Markby Hewitt, between the polytechnic and development company Cormorant.

The project has the approval of both the Department of Education & Science and the polytechnics and colleges funding council.

Campus 21 comes just two years after the polytechnic became an independent higher education corporation under the Education Reform Act, which gave it control of its assets in April 1989.

SHEPHERD CONSTRUCTION has been appointed design and building contractor for the project, with Building Design Partnership as project architects and Bucknall, Austin as quantity surveyors.

Total cost of the three-phase project is expected to be in excess of £80m, with the first phase, due for completion by March 1993, estimated at £23m. This phase will comprise 21,500 sq metres of new student and faculty accommodation on the polytechnic's main city centre site at Pond Street.

Purpose-built facilities will be created for the schools of engineering and engineering information technology, and existing premises will also be redesigned and improved.

The second and third phases, due for completion by September 1994, will provide a further 13,000 sq metres of accommodation at Pond Street and the acquisition of a new site will allow up to 37,000 sq metres for further new buildings.

Major motorway reconstruction plan

Reconstruction work costing £6.6m on part of the M40, and a £4.8m office block in Edinburgh are among the latest projects won by TARMAC CONSTRUCTION.

The contract for major maintenance work between Junction 1 and Junction 2 on the M40 has been awarded by Buckingham County Council with work expected to take 10 weeks.

The eight-storey office block in Edinburgh is being built for the Co-operative Insurance Society, and will have underfloor air conditioning. Built to an open plan design, sensors will detect people moving into the office spaces and increase the air supply according to body heat.

Other schemes received recently by the company include extensions to an office block and a car park at Swindon, for St Martins Property Investments, (£300,000); a new bridge across the A23 at Pease Pottage, West Sussex, for the Department of Transport (£310,000); a shop and business premises at the Parkway Shopping Centre, at Coulby Newham, Cleveland, for Middlesborough Borough Council (£230,000); and modifications and refurbishment of the TSB Bank at Page Moss, Merseyside (£220,000).

Tarmac Construction's contract housing division has won a contract worth £520,000 to build houses for Sefton Borough Council, on Merseyside.

The housing division will also carry out repairs and improvements to houses for Erewash Borough Council, in Derbyshire (£420,000).

Renovating Victory House in Chatham

TRY BUILD, part of the Try Group, has won a series of refurbishment and fitting out contracts worth £5.4m.

The largest, at £3.1m, is the renovation and upgrading of Victory House in Chatham, Kent for the Black Horse Financial Services Group.

The 20-week contract is due for completion in November and includes the replacement of the flat roof, the fitting of double-glazed aluminium windows and the improvement and fitting out of all internal office areas.

Try Build has also started work on the £2m refurbishment and extension of Nightingale House for The Trustees of the Home for Aged Jews.

The interior of the four-storey "Cope Wing" will be stripped out and refitted whilst a two-storey extension will receive an additional floor.

Other projects include the refurbishment of brickwork facades at the Mercedes Benz base in Milton Keynes and the upgrading of electrical and mechanical services at the London air traffic control centre for the Civil Aviation Authority.

Supplying steelwork

Two steel fabrication companies within the construction division of TRAFALGAR HOUSE, have been awarded contracts in Saudi Arabia and Malaysia, together worth around £6m.

In Saudi, associate company Cleveland Bridge and Engineering Middle East (Private) has been awarded a £5m contract by Petrokemya for the supply of 5,000 tonnes of structural steelwork for the initial phase of an olefins plant to be constructed in Al Jubail. Steelwork will be fabricated in Cleveland's Jebel Ali, UAE.

Cleveland Structural Engineering, based in Darlington, has two contracts for the supply of 1,160 tonnes of structural steelwork for the Connaught Bridge power station in Malaysia on behalf of the Tenaga Nasional Berhad (Malaysian Electricity Board).

The first, placed by Cockerill Mechanical Industries, Belgium, is for boiler support steelwork and walkways and the second, from NEI Parsons, is for the turbine hall structural steelwork.

Fitting out City offices

JOHN LELLIOTT PROJECTS has been awarded two major fitting out management contracts involving new London offices for National Power and the Bank of Tokyo.

The National Power contract involves 92,500 sq ft of office space on six floors of a newly-constructed eight-storey building, Senator House, 65 Queen Victoria Street, London EC4. Work has started and completion of the project is scheduled for August.

The Bank of Tokyo contract, awarded by Takenaka (UK), involves 90,000 sq ft of office space on nine floors of a newly-constructed building at 12/15 Finsbury Circus, London EC2.

ARTS

The Indian House in the gardens of Augustusburg, Brühl

ARCHITECTURE

Back to nature

Colin Amery stresses the importance of landscape in an increasingly built up environment

It may be rash to make predictions, but it seems clear to me that architecture is about to undergo a major change. It is due to be absorbed by nature. Instead of being an imposed, mechanistic and abstract creation isolated from the earth, the architecture of the millennium will consciously respect all the active and growing elements provided by nature.

I sense this growing awareness of the importance of nature on many fronts.

There is a huge increase in knowledge about the history of the architecture of the garden.

There is everywhere a consciousness of the importance of environmental and green issues.

There is also a sense that nature offers almost the only permanently renewable resource we have. Architects often seem to be slow learners, followers rather than leaders. It took the profession a long time to realise that the conservation of the built heritage was of cultural value.

It has only slowly dawned that the place of landscape – the importance of trees and plants – could possibly be the salvation of the built environment. The art of the landscape is not a subject that is well taught to aspiring architects: I have often been staggered by the lack of knowledge of plants displayed by most of them.

The universal presence of "ficus benjamina" in every atrium, and the ubiquitous garden centre conifers in the wrong places, are the visible evidence of horticultural ignorance. Landscape design was mistakenly hived off as a subject so that the disciplines that should unite land and buildings have been almost irrevocably divorced. Of course there are exceptions – and some brilliant ones – where landscape and gardening and architecture work together, but they are much rarer than you would think.

The publication of a major new book encourages these speculations on the future of architecture and the landscape. *The History of Garden Design: The Western Tradition from the Renaissance to the Present Day*, edited by Monique Mosser and Georges Teyssot (Thames and Hudson, £45) demonstrates the range of European research and scholarship that is now being devoted to this subject. The book represents excellent value with its 76 essays, 652 illustrations and 51 specially commissioned plans of parks and gardens. It takes the reader chronologically through the history of garden and landscape design in five sections – the humanist garden; the Baroque and classical park; the picturesque, Arcadian and sublime; the eclectic garden and the town and city parks; and contemporary parks and gardens.

The range of ideas and subjects is almost too wide, but the premise upon which the book is based seems to be such a good one that it justifies the bold attempt to cover so much material. The editors, who are both historians concerned with art and architecture, feel that we should think more deeply about the significance of landscape because of the diffuse and peripatetic way so many of us live our contemporary lives. It is quite true that we seem to live a lot of the time in a kind of suburban network – exiles from old city centres and yet also exiles from the land. We do have a consciousness that we have lost something that is both part of history and part of our human nature. That is why this book is important: it records in both words and excellent illustrations the endless search by man for a kind of rapprochement between art and nature that offers the nearest thing to an earthly paradise.

The history of the garden, from contrivance to classical calmness and on to a sense of contemporary disquiet in the late 20th century, is a complex tale. The format of this book allows for general philosophical essays to be supported by detailed accounts of particular gardens that act as special paradigms. The Villa Lante, Het Loo, Wilhelmshohe, Caserta, are well known, but they are supplemented by extraordinary masonic gardens in Sicily and Art Deco gardens in France. The last chapters dealing with the present can do little more than expose the problems of the contemporary environment. Artists like Ian Hamilton Finlay, Geoffrey Jellicoe and Roberto Burle Marx each offer their distinctive solutions, but they seem to be merely touching the surface of a gigantic problem.

Architecture is seen throughout the book as the bones for the flesh of landscaping to grow upon. But a close examination of the drawings and documents surely shows that the relationship of land and architecture is a more fundamental one. Both arts – landscape design and architecture – come from nature: architecture, and even much contemporary landscape design, seems to have forgotten this. This book is a very noble effort that should be very widely read, because it helps to restore our man made world to its natural context.

Two other new books provide both source material and inspiration for garden design. *Creating Period Gardens* by Elizabeth Banks (Phaidon, £25). is a pleasure to look at and valuable because it is entirely practical- full of lists of plants, plans and good solid source material. Liz Banks is well known as a garden restorer working for English Heritage and the National Trust and her historical lists of plants and the dates of their introduction to Britain are extremely valuable if you intend to design an authentic period garden.

I found *The gardens of Roberto Burle Marx* by Sima Eliovson (Thames and Hudson, £28) a good account of the work of the contemporary Brazilian landscape architect. This book coincides with an exhibition of models and drawings at the Museum of Modern Art in New York (until August 13). Marx has worked largely in his own country. In Brasilia he has created didactic parks to emphasise to city dwellers the values of nature. His work now has a rather dated look – a kind of optimistic world of modernism with rubber plants and cacti. But he is a serious artist and one of an apparently dwindling band of designers with deep botanical knowledge.

Architecture has to be informed by nature if it is to enhance our lives in he next century. But both architecture and landscape design have to be informed by art, and these books provide rich mines of source material waiting to be absorbed and used.

War and Peace

BBC 2, Radio 3

In honour of the centenary of Prokofiev's birth, the Kirov in Leningrad have mounted his epic opera *War and Peace* in a production destined to travel in successive years to the Bastille in Paris and to Covent Garden. A major contributor has been the BBC, responsible notably for Saturday's simultaneous broadcast. There will be spin-offs including a video. It is almost 20 years since the unforgettable impact of Colin Graham's production at the *Coliseum*.

War and Peace leaves its mark, yet stagings, because of the length and breadth of the work, remain rare. During the next few years one of the grandest works in the Russian repertory may become familiar to many more people.

This Anglo-Russian collaboration was conducted by Valery Gergiev, the Kirov's director of music, with the company's soloists, chorus and orchestra. Graham Vick and Timothy O'Brien are respectively producer and designer.

The director for television was Humphrey Burton, the producers Peter Maniura and (executive) Dennis Marks. Robert Lloyd, who has sung *Boris Godunov* at the Kirov, spoke the lucid commentary.

Prokofiev, who suffered official interference urging him to further emphasise the popular-patriotic element, worked on the opera for several years after starting in 1941.

He never saw a complete stage performance. This Kirov version is described as "complete and uncut." For TV purposes it is too long. In part two the episode in the burning, half-deserted Moscow,and to a lesser extent the last scene of all, dragged dangerously.

The effect was scrappy - war is like that, life is (sometimes) like that, but opera isn't a Tolstoy-size novel and towards the end of a long sit more compression is essential. Mozart would have understood. The dragging was not the fault of conductor Gergiev, who handled with admirable skill Prokofiev's cunning use of waltz fragments (in *Peace*) and bursts of popular song and military music (in *War*) to carry the action along.

As Graham Vick pointed out during the interval, this was ensemble opera on a scale and at a level of excellence that we may never see again.

The most interesting, enigmatic character, Pierre Bezukhov, won an outstanding performance from the tenor Gegam Gregorian.

Andrei Bolkonsky was sung with apparently endless supplies of fine, steady tone by Alexander Gergalov, without suggesting enough of the character's thoughtful side.

Yelena Prochina's Natasha had the same resilience with, in the final scene, some delicate phrasing. *Nicolai Otkhotnikov's* grizzled Field Marshal Kutuzov (with a touch of Beaverbrook in his features) was a portrait to place beside memories of Norman Bailey at the ENO. No room to mention the many subsidiary roles sharply and satisfyingly taken. The huge chorus, energetically deployed, sang and acted devotedly.

It is hopeless to judge opera sets from TV. One got no firm idea of O'Brien's design as a whole. From visible details, *War* suited the screen better than *Peace*, where the bare side screens with rows of doors looked as if the characters were popping in and out of fitted clothes cupboards - unhelpful background for Valentina Komolova's handsome period *costumes*.

Apart from a suspicion of enjoying a different spectacle from the public, the photography was striking, with gratifying views of the Kirov's magical auditorium.

Ronald Crichton

The Magic Flute

GLYNDEBOURNE

At least one layer of confusion has been stripped from Peter Sellar's Glyndebourne Mozart, which created so much clamour when it was unveiled last year. As the title signals, the revival that opened on Saturday is given in English, in the translation commissioned specifically for this production from long-time Sellars collaborator Alice Goodman. That was Sellars' original intention in his grand scheme to turn *The Magic Flute* into an LA story; a strange sequence of production decisions led to last year's hotchpotch, which was sung in German with a predominantly Anglophone cast, given *sans* dialogue, but with an elaborate dumb show in its place.

Now a modicum of the dialogue has been restored and the mime banished. However,although the changes have undoubtedly helped the show, they have by no means cured all its ills. The first act moves smoothly, logically enough, but the disjunctions in the second, with hardly any dialogue and only endless silences to separate some of the numbers, do nothing to provide the staging with a sense of continuity and coherence. Goodman's vernacular version is free and easy, trampling over the rhyming schemes and misplacing the stresses in arias when it suits, and slicking down the language: "Zip that lip" the Three Boys tell Papageno at one point; "Sarastro runs this joint" the Spokesman informs Tamino, who exhorts him to "Explain this riddle cut the shit". Yet the tone is never consistent and the temporising sometimes laboured and awkward, all of which suits Sellars's production to a tee.

For the astonishing characteristic of this *Flute*, for someone who has admired Sellars' productions in the past at least for their consistency and stagecraft, if not always for their revelatory power, is the thinness of the dramatic thought, and the intellectual lethargy that lies behind it. A West Coast setting, with Tamino as T-shirted youth, the Three Boys toting skateboards and Sarastro and his followers adherents to a quasi-religious sect not far removed from the Moonies, is fair enough, but as a starting point for a reading of the work that then attempts to intepret or at least to explore some of its themes. Sellars merely lodges the action in Los Angeles, arranges some tourist-brochure shots of freeways and skylines as fetching backdrop, and just stands back to let it all unfold.

That approach survives the first act, especially with some dialogue to prod it along; even the intermittent multi-layering of the textrolled up on a neon display as it is sung, while the singers execute hand-jives halfway between deaf-dumb sign language and Asian dance gestures seems less redundant when there is a dramatic counterpoint to it.

After the interval the thread is lost altogether; nothing happens, and the production loses its focus, pace and even its cosmetic identity. With no visible attempt to package the action in any way that might make it dramatically viable then, isolated moments apart (Tamino's incongruous scene with the Armoured Men, got up as members of the LA Fire Service, frantically hand-signing, most vividly), it becomes just mindnumbingly dull.

Musically everything is in far safer hands. Andrew Davies conducts robustly, setting the tone with an urgent overture and keeping tight control thereafter; that the action flags so often is no fault ofhis.

The cast contains four newcomers. Gwynne Howell makes his Glyndebourne debut as a beautifully even-toned Sarastro (a character for whom Sellars appears to have elaborated no kind of motivation at all), Beverley Hoch is a brittle, short-phrased Queen of Night, cut down to size as a Barbie-doll walk-on, and Thomas Randle a splendid looking, vocally neutral Tamino.

Linda Kitchen is now Papagena, joyous and lithe in her duet with Papageno, deeply embarrassing when disguised as a wheel-chair bound geriatric.

James Maddalena repeats his Papageno, singing with exemplary ease and now delivering the dialogue with laconic humour; Ai-Lan Zhu is a serene, vocally competent Pamina.

There is a feisty set of Ladies (Annegeer Stumphuis, Denise Hector and Fiona Kimm), and a lively trio of Boys (Christopher Wardle, Robert Jones and James Conway).

Anyone who hopes for the kind of theatrical frissons generated by Sellars' previous Mozart productions, is still going to find *The Magic Flute* a miserable, conceptually flawed disappointment.

Andrew Clements

Madame De Sade

ALMEIDA THEATRE

The Marquis de Sade (1740-1814) and Yukio Mishima (1925-1970)were both fanatics.

De Sade dreamed of a crime to provoke corruption after his death; and Mishima could not endure corruption during his life. They are a match.

Mishima's 1965 play, *Madame de Sade*, at the Almeida engages with de Sade by asking why the Marquise stayed loyal to her husband until his release in 1790 from eighteen intermittent years in prison.

De Sade famously trusted to numbers and statistics as a catalogue of his activities; so it is a shame that the author of *One Hundred and Twenty Days of Sodom* should have occasioned one hundred and twenty minutes of boredom at the Almeida.

This unfocussed production touches on the real issues about de Sade, but never presses on them.

Our ordinary vices, treachery, disloyalty, cruelty and tyranny,are on show here in a world where moral science is simply geography misapplied.

One's world view depends on which of them one believes is worst.

In this context, Mishima balances curiosity and disgust in his account of the marriage.

The action stretches over eighteen years in the house of de Sade's mother-in-law; as it evolves, one is asked to assess de Sade as an author, pervert, husband and son-in-law, but offered no answers.

The Marquis himself appears only as an offstage knock at the door.

The curiosity is the Marquise, unshocked and at times implicated in her husband's sexual excesses, pleading that "nothing in the world is without value" in his defence, and believing in his cathedral of vice and back stairway to heaven.

Against de Sade's monster of immorality, she becomes a monster of devotion.

Her mother vacillates between meting out help and punishment to de Sade; she is bewildered by the anomalies which de Sade's behaviour compels her to face.

Sparky acting keeps an overlong script alight. Julie Legrand as the whip-swishing prostitute recounts and then partakes in de Sade's sexual exploits.

Diana Kent grows in confidence as the Marquise, and Natasha Parry as her mother puts all the conventional objections to de Sade without being righteous.

Her friend, the Baroness de Simiane, is well played by Irene Hamilton; jealous for untasted vices, and zealous in denouncing them.

Tal Rubins directs the production in Japanese style, drawing on Noh choreography and gesture.

Midge Ure's Nippon-pop sounds in the background, but is never integral to the production.

The same is true of the production's Japanese set, which keeps a polite, decorous distance.

These pacific overtures serve to maintain the cultural gap between Mishima and de Sade.

One already knew already, however, that the key to Mishima is the brilliant short book *On Hagakure*; and that the key to de Sade lies in the protracted excesses of *Justine*; the differences were plain enough.

Katherine Hamnett's costumes are the best thing on offer.

Each costume expresses the character perfectly: a plunging dress-cum-harem pants in bruised purple for the prostitute; a simple, saintly neckline over an outrageous bustle for de Sade's mother-in-law; a ruched and frivolous pink for his fluffy sister-in-law; and an enduring plain green for his wife.

Andrew St George

Alastair Muir

Julie Legrand in Madame De Sade

INTERNATIONAL
ARTS PREVIEW
& FESTIVALS

This year's Henry Wood Promenade Concerts open on Friday at the Royal Albert Hall in London with Elgar's The Dream of Gerontius, performed by the BBC Symphony Orchestra and assembled choirs under Andrew Davis. The soloists will be Florence Quivar, Keith Lewis and Willard White. The season has a total of 67 concerts, including the traditional Last Night on September 14.

For the second year in succession, the BBC's Proms impresario John Drummond has opted for a themeless programme, and the range of music and performers is extremely rich and wide. While the BBC orchestras as usual bear the onus of the season's work, there are nine orchestras and a chorus from abroad, including the Berlin Philharmonic making its Proms debut (with Claudio Abbado and soloists Cheryl Studer and Alfred Brendel on Aug 26), the Gustav Mahler Jugendorchester also with Abbado (Aug 20), the Dresden Staatskapelle with Colin Davis (Sep 8 and 9), the Boston Symphony with Ozawa (Sep 7) and the Orchestre de Paris with Semyon Bychkov (Sep 1 and 2).

The Mozart bicentenary is celebrated with concert performances of the Glyndebourne production of La clemenza di Tito (Aug 25) and WNO's Idomeneo (Sep 13). Other anniversaries include the Prokofiev centenary (a concert performance of The Fiery Angel conducted by Edward Downes on Aug 22), the Arthur Bliss centenary (his Piano Concerto performed on Sat by Piers Lane) and the Dvorak 150th anniversary (Rozhdestvensky conducting the rarely-heard dramatic cantata The Spectre's Bride on Aug 16).

One of the most important functions of the Proms has always been to present opportunities for new music to be heard by a wide audience. The season includes premieres of works by Mark-Anthony Turnage (this coming Sun, in a concert by the Orchestra of Covent Garden under Haitink), Martin Dalby (by the Royal Scottish Orchestra conducted by Alexander Gibson on Aug 17) and Witold Lutoslawski (Aug 8, conducted by the composer). Andrew Davis will also conduct the British premiere of Tippett's Byzantium (Sep 6). Booking by phone 071-823 9998.

The Ballet Nacional de Espana London starts its first London season tomorrow at the Coliseum. There are two programmes over the next two weeks, including a dazzling flamenco display and classical Spanish dance (071-836 3161). Starting tonight, the Prague Festival Ballet is presenting a week of modern dance at Theatre K in the Czechoslovak capital (235 0975).

FESTIVALS GUIDE

AIX-EN-PROVENCE
The opera programme at the Théâtre de l'Archêveche consists of Rudolf Noelte's production of Le nozze di Figaro (tomorrow and Fri), Rameau's Castor et Pollux staged by Pier Luigi Pizzi and conducted by William Christie (Sat), and Robert Carsen's new production of Britten's A Midsummer Night's Dream (Thurs) conducted by Steuart Bedford, with a cast led by Lillian Watson, Eirian James and James Bowman. Mozart's early sacred play Die Schuldigkeit des ersten Gebots receives its festival premiere tonight (also Sun) in a staging by Jean-Claude Fall, with a cast led by Valerie Masterson. William Christie and Les Arts Florissants give concerts devoted to Mozart (Wed) and Delalande (Sun) in the Cathédrale Saint-Sauveur. There are also song recitals by Helen Donath (Wed) and Teresa Berganza (Sat). Ends Aug 2. (16) 4217 3434

AVIGNON
Peter Brook's production of Shakespeare's The Tempest is performed each night this week at Les Taillades (except Sun), in a new French translation by Jean-Claude Carrière. Throughout the week, the Cloître des Carmes hosts a season of plays by the radical east German dramatist Heiner Müller. Isabelle Pousseur's production of Strindberg's Dream Play is performed tonight, tomorrow and Wed at the Gymnase Aubanel. Ends Aug 2. (90) 862443

CANNES
The Nuits Musicales du Suquet, organised by Gabriel Tacchino, begin tomorrow with a concert by the Camerata Strumentale di Santa Cecilia, followed on Wed by a piano recital by Alexis Weissenberg. The Warsaw Chamber Orchestra gives a concert on Sat. Ends July 30. (92) 986277

EPIDAURUS
This week's drama programme at the Ancient Theatre of Epidaurus consists of the Greek National Theatre's production of Sophocles' Philoctetes on Fri and Sat. Ends Aug 31. (753) 22026

GLYNDEBOURNE
Nicholas Hytner's much-admired new production of La clemenza di Tito, with a cast including Ashley Putnam and Philip Langridge, can be seen tonight and on Sun. Andrew Davis also conducts Peter Sellars' controversial staging of Die Zauberflöte tomorrow. Graeme Jenkins conducts Trevor Nunn's production Idomeneo on Wed and Sat. Ends Aug 23. (273) 541111

MACERATA
The festival opens tomorrow with a production of Don Giovanni at the Arena Sferisterio. Gustav Kuhn fills the dual role of conductor and producer, and the decor and costumes are by Enrico Job (also Sun). Don Pasquale at the Teatro Lauro Rossi (Sat) is a Roberto de Simone production conducted by Roberto Abbado. Ends Aug 14. (733) 230735

MONTPELLIER
Tonight's opening performance, conducted by Ingo Metzmacher at the Opéra Berlioz-Corum, is of Bruno Maderna's arrangement of Monteverdi's Orfeo. Tomorrow Jeffrey Tate conducts Elgar's Second Symphony, and subsequent concerts are sprinkled with orchestral music by Florent Schmitt and distinguished vocal soloists. The Tallis Scholars give a recital on Sat, and Lucia Aliberti and Jean-Luc Viala lead the cast in a performance of Bellini's Il pirata on Sun. Ends Aug 3. (67) 616681

MONTREUX
The final week of the 1991 jazz festival includes concerts by Herbie Hancock and Wayne Shorter tonight, Roberta Flack tomorrow, and a jazz gala on Wed with George Benson, the Count Basie Orchestra, Ray Charles, Herbie Hancock and Quincy Jones. Later in the week, the attractions include the David Sanborn Group (Thurs), and Champion Jack Dupree and the Marsalis Family (Sat). The festival ends with a Gospel Summit on Sun. (21) 9631212

ORANGE
Marek Janowski conducts Beethoven's Ninth Symphony on Fri and Elektra on Sat, both in the Théâtre Antique. Elektra is staged by Jean-Claude Auvray, with Gwyneth Jones in the title role, Leonie Rysanek as Klytemnestra and Elizabeth Connell as Chrysotemis. The only other event at Orange this year is a single performance on Aug 3 of Aida, conducted by Michel Plasson with Aprile Millo in the title role. (90) 518383

RAVENNA
One of the highlights this year is a production of Auber's opera La Muette de Portici (1828) conducted by Patrick Fournillier and staged by Micha van Hoecke, with a cast led by Tiziana Fabbricini (Thurs, Sat and next Mon at the Rocca Brancaleone). The Accademia Bizantina plays music by Mozart, Boccherini and Viotti at the Teatro Alighieri (tomorrow). The pianist Michele Campanella takes part in a chamber music evening at the Biblioteca Classense (Fri), and Pierre Boulez gives a concert with the Ensemble InterContemporain at the Teatro Alighieri (Sun), with music by Donatoni, Petrassi, Berio and Boulez. Ends July 24. (544) 482494

SAVONLINNA
This evening's performance is Aida, conducted by Miguel Gomez Martinez and staged by Andras Miko, with a cast led by Ruza Baldani, Helena Doese, Jaakko Ryhanen and Matti Salminen (also Fri). Laszlo Seregi's production of the ballet Romeo and Juliet can be seen tomorrow and Thurs, and there is a performance on Fri of Otto Schenk's production of The Bartered Bride, with a Finnish cast. On Thurs and Fri, there are late afternoon performances of Mozart's opera buffa La finta semplice at the Town Theatre. Peeter Lilje conducts the Festival Orchestra and Choir in Mozart's Coronation Mass and Joonas Kokkonen's Requiem on Sat in the Kerimaki Church. Ends July 31. (57) 514700

SCHLESWIG HOLSTEIN
This week's highlights include concerts by the Orchestre de Paris under Semyon Bychkov in Neumunster (Thurs) and Lübeck (Fri). Justus Frantz plays Mozart with the Moscow Virtuosi and Vladimir Spivakov in Elmshorn (Sat) and Altenhof (Sun). Trevor Pinnock and the English Concert give a Haydn and Mozart programme in Itzehoe (tomorrow) and Lüneburg (Wed). Ends Aug 25. (431) 567080

SIENA
The Incontri in Terra di Siena are chamber music recitals in towns surrounding Siena, organised this year by the cellist Antonio Lysy. The opening programme on Sat at the Castelluccio di Pienza, La Foce, consists of works by Mozart, Schumann and Ernst von Dohnanyi. Among the musicians taking part this year are Jeremy Menuhin and Janet Hilton. Ends Aug 4. (578) 64050

TANGLEWOOD
John Williams conducts a Boston Pops concert tomorrow, followed on Wed by a recital by Frederica von Stade. Seiji Ozawa conducts the Boston Symphony Orchestra on Fri in works by Jacob Druckman, Mozart and Beethoven, with Yevgeny Kissin piano soloist. James Galway is soloist in the concert on Sat, conducted by Stuart Challender, and Helmut Rilling conducts a Bach and Mozart programme on Sun, with piano soloist Richard Goode and the soprano Phyllis Bryn-Julson. Ends Sep 1. (413) 637 1600

VERONA
Nabucco (tomorrow and Fri) is conducted by Daniel Oren and staged by Gianfranco de Bosio, with Piero Cappuccilli in the title role, Yevgeny Nesterenko as Zaccaria and Ghena Dimitrova as Abigaille. Turandot (Wed and Sat), conducted by Daniel Nazareth and staged by Giuliano Montaldo, has Grace Bumbry as the Ice princess. Rigoletto (Thurs and Sun) is conducted by Rico Saccani and staged by Sylvano Bussotti. Ends Sep 1. (45) 590109

FINANCIAL TIMES

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Monday July 15 1991

Glasnost at the summit

AN INTRIGUING draft communiqué from the summit of the heads of government of the Group of Seven industrial countries has fallen into our hands.

"Many doubt," it begins, "whether this 17th summit of the G7 will turn out to be more than an elaborate photo-opportunity. Unhappily, recent experience gives good ground for such cynicism.

"Last year in Houston, the summit announced that the Uruguay Round of international trade negotiations had 'the highest priority on the international economic agenda'. On the pivotal issue of agriculture, the leaders promised to maintain a high level of personal involvement and to exercise the political leadership necessary to ensure the successful outcome of the negotiations. Even at the time some observers doubted the commitment. The debacle in Brussels last December proved the doubters correct.

"We must and can do better this time. But it will not be easy. The challenges created for our own countries by the global movement to economic reform, however welcome in itself, will prove painful. Dependent as we are on the consent of our voters, there is a limit to the sacrifices we dare demand. But we must distinguish between true and imaginary sacrifices.

"The compromises required to complete the Uruguay Round are not among the true sacrifices. While many would have to adjust to increasing competition, not least the farmers, as a whole our people would benefit greatly from the opportunities created by its successful completion.

Subsidies wars

"According to the OECD, almost $300bn was spent by industrial countries in 1990 on the futile war of farm subsidies. Last year we said we would be personally engaged in the effort to stop this folly. This year we mean it.

"Trade liberalisation is not a sacrifice. But we fear this is not the case for the environment. It is possible – though as yet far from certain – that the biosphere would be unable to absorb the pollution created by more than 5bn people consuming at anything even close to the level of our own peoples today. Rhetoric notwithstanding, we will cling to that uncertainty, fearing the consequences of having to explain that our peoples may have to do with less, if others are to have more.

"Aid is also a sacrifice, if a modest one by the standards of an attempt to halt global warming. Yet even if the cost of aid is modest, its unpopularity is not. Our citizens do not vote for politicians who promise to spend their money abroad. While it was exhilarating to listen to the leader of our erstwhile adversary present his plans for transforming his country into a successful market-oriented economy, it was embarrassing as well. For what we are prepared to do is limited.

Political risk

"We are unwilling to take the political risk of asking for large additional budgets to meet the needs of the Soviet Union. In practice, therefore, more assistance to the Soviet Union would mean less for eastern and central Europe, and the developing world. But these countries need assistance at least as much and – in the case of Africans threatened by famine – deserve it more. This is why we have decided to accept the terms for official debt relief to the poorest developing countries proposed by Mr John Major last year.

"Yet the convenient answer is also the right one. It allows us to make clear to Mr Gorbachev how much needs to be done – in settling the Soviet constitution, in articulating a detailed programme for reform and in obtaining the required internal commitment – before external financial assistance would prove worthwhile.

"Finally, a recently released study from the Group of Thirty has led us to commission an analysis of the future of the G7, which the G30 suggests should become a global directorate. This was an issue too complex for our crowded London agenda, as the question clearly needs to be discussed as part of a re-evaluation of the congested field of intergovernmental organisations."

Welcome to congested London.

Local fall-out from BCCI

AS EVIDENCE of further fraud and malpractice emerges in the wake of the BCCI collapse, is there a need to think again about the potential threat posed by BCCI to the stability of the banking system? Those responsible for managing large sums of money will no doubt feel obliged to do so. But they will almost certainly come back to one inescapable point: the striking feature of BCCI's operations, whether in the United States, Europe or the Middle East, remains the wholly exceptional nature of the scandal.

That said, there is bound to be some modest fall-out; and in Britain the backwash in financial markets relates chiefly to the local authorities. They were already becoming more cautious in the placing of short-term funds with secondary banks before the BCCI collapse. Edington, the merchant banking arm of the Manchester-based financial services group Henry Cooke, was recently put into administration partly as a result of local authority withdrawals.

The shadow environment secretary, Mr Bryan Gould, a somewhat improbable champion of Britain's hitherto unloved fringe banks, may thus be right to warn about a credit squeeze in the sector. Yet for the local authorities to tighten the squeeze would be needlessly self-destructive. Britain's secondary banks are scarcely a haven of fraud, drug money laundering and financial malpractice of the kind that characterised BCCI.

Basic rule

Nor have most local authorities any need to pull in their horns. The indications are that the majority of those that placed money with BCCI had been careful to spread their risks. Where risks were not spread, as at Western Isles council, the failure was less a shortcoming of the system than of individuals. The most basic rule of investment is not to keep too many eggs in one basket. Any financial officer who cannot be relied on to observe such common sense should never have been put in charge of poll tax payers' funds.

How does such an obviously sensible rule of thumb come to be broken by financially experienced people? It may well be that local authority finance directors drop their guard when money is entrusted to the markets via intermediaries, who may be offered higher rewards for passing business to more risky banks. Certainly some local authorities appear to have placed excessive reliance on City money brokers in dealing with BCCI.

As Mr John Major, the prime minister, rightly pointed out last week, any accountant or finance director should know that if any institution pays over the odds for its money, it is because there is a risk premium. He urged on local authorities "a prudent view of risk, and spreading risk", an unexceptionable exhortation – *pace* Mr Gould – given the fiduciary role of authorities in relation to poll tax payers.

Containable threat

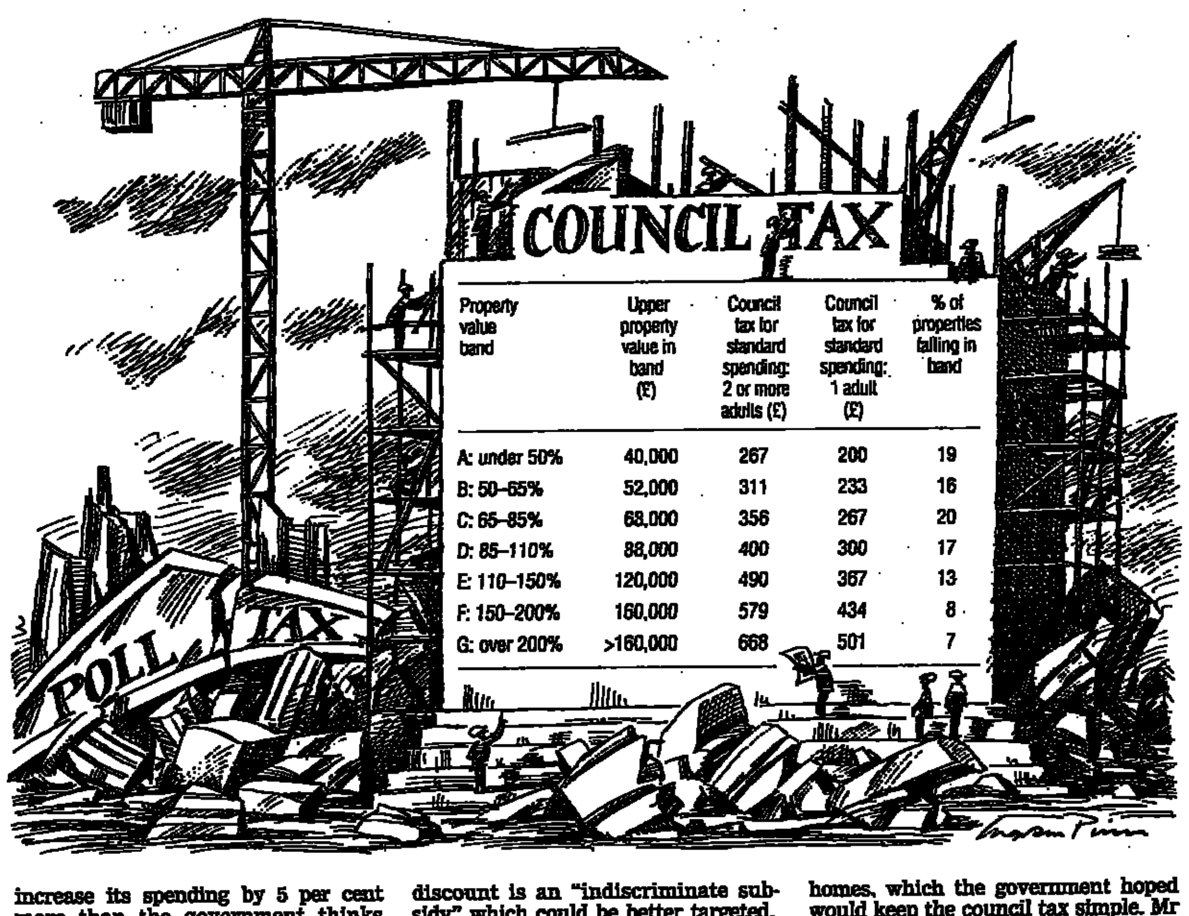
Some tightening of credit conditions in secondary banking may still be inescapable if local authorities have allowed the money brokers to incur excessive exposure to individual fringe banks on their behalf. That is the kind of reassessment of risk that invariably precipitates a flight to quality after a collapse. But the threat to the system as a whole should be eminently containable.

The contemporary fringe banking sector bears no comparison with the one that grew fat on regulatory anomalies before the banking crisis of the mid-1970s removed them from the scene. Today's secondary banks are really the building societies, which have been granted new freedoms to compete with orthodox commercial banks, but do so under relatively tight supervision. It would serve no purpose and do much needless damage if the the local authorities were suddenly to start pulling money out of the smaller building societies.

One of the less satisfactory aspects of the affair is the evidently poor quality of financial management in some of Britain's local authorities. The authorities should be wary of over-reacting to a scandal that has very little bearing on the soundness of individual British banks or building societies.

Local authorities fear that the council tax could repeat the least popular aspects of the community charge, writes **John Willman**

New structure, shaky foundations



Property value band	Upper property value in band (£)	Council tax for standard spending: 2 or more adults (£)	Council tax for standard spending: 1 adult (£)	% of properties falling in band
A: under 50%	40,000	267	200	19
B: 50–65%	52,000	311	233	16
C: 65–85%	68,000	356	267	20
D: 85–110%	88,000	400	300	17
E: 110–150%	120,000	490	367	13
F: 150–200%	160,000	579	434	8
G: over 200%	>160,000	668	501	7

When Mr Michael Heseltine announced his proposals for abolishing the poll tax, he concluded his presentation to MPs with the standard coda: "I commend these proposals to the House." Commendation there was, but also much condemnation. Some from his own back benches accused the environment secretary of reintroducing the rates in his new property-based council tax. The opposition accusation was that he had retained too much of the poll tax in the discounts to be offered to single-adult households.

Publication of the proposals in a green paper in April seemed to have muted criticism, particularly from the government side. But with the period for submitting views now over, the environment secretary is expected to give an indication of the results of his consultation in the next few weeks. His green paper has prompted thousands of submissions. But he will pay particular attention to those from the local authorities which have to make the new tax work and experts in local government finance.

Their submissions largely agree that while the government has slain the poll tax, there is a danger of repeating some of its least popular aspects. And there is a consensus that Mr Heseltine's plans do not offer a stable solution to the problem of funding local government and providing locally accountable services.

The good news for Mr Heseltine is that there is almost universal acclaim for the abolition of the community charge, which most of those involved in local government never wanted in the first place. There is widespread support for returning to a tax based on property values. And basing the new council tax on capital values (what a home is worth on the open market) is seen as an improvement on the old rating system based on rental valuations which were hard to establish and not well understood by ratepayers.

There is also a heartfelt welcome for the restoration of 100 per cent rebates for those on the very lowest incomes. Under the poll tax, they are required to pay a 20 per cent minimum, with compensation added to their social security benefits based on the average amount of poll tax. The Audit Commission estimates that those paying the 20 per cent minimum contribute an average of £6 a year to the public purse net of benefits, and that it costs on average £15 to collect this amount.

The commission and most of those involved in local government are urging the government not to wait until 1993 when the new council tax comes on stream, and to restore 100 per cent rebates for the poll tax immediately. While it is reported that they have been successful in convincing Mr Heseltine of this, the Treasury is believed to oppose the move.

That, however, is about the end of the good news for Mr Heseltine as he reads through the submissions from the sharp end of local government. The bad news is that on almost every other aspect of the government's plans, local authorities and the people who work in them have deep reservations about both the overall strategy and the details of implementation.

The most serious concern is expressed over the gearing of the council tax, which is likely to mean that – as with the poll tax – small increases in spending will lead to large increases in council tax bills. This is because the council tax will provide just a small part of local government income, yet is the only substantial source of income under the control of local councils (the rest comes from government grants and the nationally-determined non-domestic rates).

At current levels of government grant, the new council tax will provide about 22 per cent of local authority spending (14 per cent after rebates). A council which wishes to increase its spending by 5 per cent more than the government thinks wise will be forced to put the council tax up by about 25 per cent.

As with the poll tax, there is widespread suspicion that government grants will be manipulated to assist flagship Tory councils and penalise Labour councils. The Conservative-dominated Association of County Councils points out that "the level of local taxation will be more influenced by government grant to an authority than by the authority's spending decisions".

The favoured solution of the local authorities associations, not surprisingly, is to restore control over non-domestic rates to local government, with restrictions on increases to protect small businesses. This recommendation is also backed by the Audit Commission – widely respected as a scourge of bad management in local government. The government has set its face against such a move, however, and may instead seek ways of shifting local government expenditure to central government (as is already planned for further education, for example).

The second chief criticism centres on the personal discounts which will knock 25 per cent off council tax bills for single-adult households. Assaults from the Labour-dominated Association of Metropolitan Authorities over what is seen as "the last vestiges of the principles of the poll tax" are perhaps predictable. Rather cheekier is the accusation from the Association of London Authorities (which represents only Labour boroughs) that the discount is an "indiscriminate subsidy" which could be better targeted.

However, the Audit Commission describes the personal discount as "potentially the most complicated part of council tax provision". Information will have to be gathered on households claiming discounts, verified and cross-referred with benefit payments where rebates are paid. In areas where people come and go, the burden of keeping tabs on the number of adults in a household will be considerable.

The Chartered Institute of Public Finance and Accountancy, whose membership includes almost all the local authority chief finance officers, concludes that "if the personal discount scheme is to be administered equitably as between one taxpayer and another, some form of local register will emerge". This will chill the blood of ministers, who devoutly hoped that the council tax could get rid of the need for the much-hated register of adults.

The most serious concern is over the gearing of the council tax, which is likely to mean small increases in spending will lead to large increases in council tax bills

The third main area of criticism is over the banding system for valuing homes, which the government hoped would keep the council tax simple. Mr Heseltine planned seven valuation bands with similar properties being assigned to a band using a broad brush valuation approach. The tax to be levied on the top band would be a maximum of 2.5 times that on the bottom band, to avoid swingeing imposts on well-to-do householders.

The suggested bands have already come in for considerable political criticism, particularly the creation of a single band for all English properties worth more than £160,000. Band G, which includes some modest homes in the south-east as well as Buckingham Palace is a particular target, with calls for a higher threshold of up to £300,000.

But more serious misgivings arise from the imposition of a single banding structure for the whole of England (Wales and Scotland will have their own banding structures). Seventy per cent of households in Hackney, one of London's most deprived boroughs, will be in the top three tax bands – including many council houses. In Rotherham, 84 per cent will be in the bottom three bands.

The Association of District Councils points out that this relative uniformity will make the council tax look very similar to the poll tax in such areas. Five out of six two-adult households in Rotherham, for example, will pay between £341 and £454 at current levels of expenditure. With most people paying more or less the same amount, the fairness of the tax may again be questioned – particularly if a mansion in an area like Rotherham ends up in a higher band than a council house in Hackney. The local authorities would largely prefer regional banding to reflect such variations and maintain the progressive nature of the tax.

In fact the imposition of national bands is a none-too-subtle means of making sure that areas which lost out in the switch to poll tax do not again suffer when the council tax is introduced. Government grants will be allocated to ensure that the council tax is the same for similar houses coming under councils which spend what the government thinks they should spend. If most homes are of low value in a local authority, more grant will be needed to achieve this aimthan in an area where most homes are of high value. Many of the cheaper housing areas which will benefit are Conservative-held marginal seats in areas such as the north-west.

In returning to a property base for local taxation Mr Heseltine hoped to avoid the need for some of the bureaucracy which dogged the rates. In particular, he hoped that banding would not need an appeals system and regular revaluations which tended to create political backwash with the rates. These hopes are brought rudely down to earth by the Institute for Fiscal Studies which has examined the case for banding in an analysis of the options for local taxation reform.*

While accepting that banding would simplify valuation for many properties, the IFS points out that it would make decisions more contentious at the margins. Moving down one band could save as much as £90 a year on the government's target figures, offering a considerable incentive to appeal. The willingness of householders to appeal is shown by the thousands of cases heard every year under the old rating system, many to save no more than £10 or £25 in rates.

Nor can regular revaluations be avoided without creating injustices as relative property values change. With valuation bands as narrow as £12,000, building an extension could easily merit movement up a band. And, as the Association of Metropolitan Authorities points out, it would not encourage public confidence if properties in the 21st century were to be valued according to property prices in 1991.

Here the submissions offer helpful suggestions which could take the steam out of the revaluation process. The bands could be revalued each year, perhaps in line with inflation. Periodic reassessments of the band into which every home is allocated would still be needed to deal with relative property price movements and individual increases because of extensions and other big improvements. If carried out on a rolling basis over five years and combined with annual uplifting of the band values, there would be no sudden and steep five-yearly revaluations which destabilised the rating system.

These objections on matters of both strategy and detail indicate that Mr Heseltine faces a hard summer if he is to revise his plans sufficiently to bring those who must operate them on board. Matters such as the procedures for valuation can be more easily changed than the continuing adverse gearing of the new tax. And time is not on his side: the legislative programme for the council tax must begin in the autumn if the launch date of 1993 is to be achieved.

As the environment secretary attempts to square the circles of local government taxation, he may yet again reflect on the folly of the poll tax. How much greater the folly, however, if the council tax were to be a failure of similar proportions. Mr Heseltine will need all his considerable political skills to ensure that this will not be the outcome.

**Local taxation: the options and the arguments, Michael Ridge and Stephen Smith, IFS, £10.*

OBSERVER

Marking time

■ Since they're paid only £2 or so a time, most teachers who spend long summer hours marking examination scripts find the task a bore. Rob McIlveen, a GCE Advanced-level examiner in psychology, is different. He can't wait to see what strange developments the next script will reveal.

Some reflect the times. Take for instance the psychologists' "Duplex model" of memory, depicting memory as composed of short-term and long-term stores. In the view of some of 1991's Aids-aware examinees, it has now been superseded by the "Durex model".

Another event this year is the discovery of a new tribe.

True, it's well known that the Hopi Indians' language has no words for the past or future, whereas Eskimos have a rich vocabulary for describing their landscape. But what price the desert-dwelling Hop Eyed Indians whose language has over 100 words for snow?

As the examinee who discovered them said: "This is a little bit surprising when you think about it."

Curious things have also happened to individuals, such as the posthumous sex-change undergone by the controversial Sir Sybil Burt. By contrast Physiology Professor Colin Blakemore, famed for surgical experiments on animals, has got away with a simple name-change to Colin Broadmoor.

Where history is concerned, however, neither is likely to be as well remembered as the newly emerged psychoanalyst Sigmund Fraud.

Side swap

■ Time was when no self-respecting senior clearing banker would cross the street and join a rival. It just wasn't on: too many secrets, old boy.

They do things differently now. Hence Sir Peter Leslie, who until early this year was a deputy chairman at Barclays, is moving across to Midland Bank to take up a similar position. A couple of years younger than Sir John Quinton, the man who beat him to the top job at Barclays, Leslie obviously feels he is too young to be put out to grass.

Brian Pearse, Midland's new chief executive, is another career Barclays man who never quite fitted in. He learnt his banking at Martins, a superb little northern bank not heard of since Barclays swallowed it 20-odd years back.

Early days yet, but one senses that Leslie and Pearse have not been recruited as night-watchmen to oversee Midland until it is acquired by one of its stronger rivals.

In the vortex

■ "A first-class man" is how Cayman bankers describe Englishman John Atkinson, the Caribbean tax haven's inspector of banks and trust companies, now in the vortex boiled up by BCCI.

With a staff of just 12 to supervise 528 institutions, he has carved out a reputation for being tough. Not tough enough, though, to keep BCCI on the straight and narrow? "These things can happen to anyone, anywhere at any time," Atkinson shrugs.

There's no doubt he will be co-operating fully with the Bank of England in the BCCI probe. Before being seconded to the Caymans under an IMF scheme, he spent 15 years in the supervision department at Threadneedle Street.

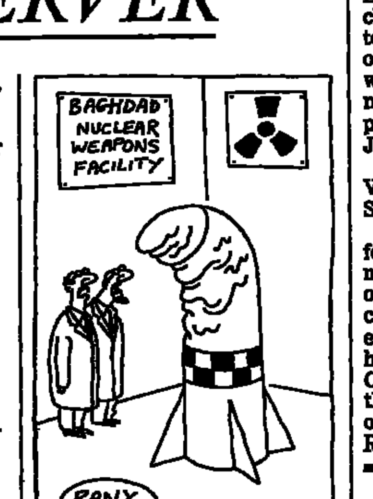
Cross current

■ Also caught in a cross current, albeit minor by comparison, is South Wales Electricity chairman Wynford Evans. Top of his agenda today will be the aggressive buying of his recently privatised company's shares by Welsh Water, headed by his erstwhile friend John Elfed Jones.

The predatory move has strained the small Cardiff business community's loyalties as well as cooling relations between Evans and Jones.

The buyer can't go any farther for the moment, having built up the maximum-allowed stake of 14.9 per cent. But onlookers think he wants eventually to create a Wales plc by joining the two concerns.

As Evans sits in his office this morning he must be wondering what his adversary has in store for him. So is most everyone else in Cardiff, too.



"The plutonium keeps melting the cardboard."

Swift rewards

■ France's prime minister Edith Cresson has wasted no time in be-gonging her allies. Both her former employer and one of her economic gurus were made officers of the Légion d'Honneur in the July 14 honours list.

The guru in question is Bernard Esambert, chairman of the Compagnie Financière Edmond de Rothschild merchant bank, reputed in France to have invented the concept of "economic warfare". His writings have provided much needed intellectual underpinning to Cresson's bash-the-Japanese rhetoric.

The other is Didier Pineau-Valencienne, chairman of Schneider.

He was officially nominated for the honour by the industry ministry after his $2.2bn takeover of US electrical equipment concern Square D. But it has escaped nobody that it was he who created a job for Cresson after she slammed the door on the government of her predecessor, Michel Rocard, nine months ago.

Ring of words

■ The once popular catchphrase "Sez who?" seems due for revival in America, where it's deemed a near crime to use other folks' words as though they were one's own. That much is shown by Democrat Joe Biden's withdrawal from the 1988 presidential race after claims he'd recycled, unacknowledged, a spiel originally given by Neil Kinnock.

Instead of being discouraged by Biden's example, the word-pinching habit looks to be spreading – as witness the controversy about a speech made by Joachim Maitre, a dean at Boston University.

Soon afterwards, the New York Times reported allegations that numerous of his words had been lifted from an article by film critic Michael Medved. Maitre, a former East German fighter pilot, has since resigned.

Now, alas, the New York Times has confessed its own report was "improperly dependent" on a previous report in the rival Boston Globe.

But if readers want to pass on the story, I'd rather they didn't quote me. I got it from the International Herald Tribune, which in the interim had recycled the New York Times's report.

Robert Thomson says pressure for reform in the financial system is linked to the Nikkei average

Japan's cycle of compromise

Having expected the customary quick end to the ignominy of the financial industry and a rapid return to business as usual, corporate Japan and the Tokyo stock market have had their confidence eroded by a fast-flowing stream of allegations.

Investigations are continuing into the links between the affiliates of Nomura Securities and Nikko Securities and gangster groups. And more than 50 local authorities last week announced an indefinite suspension of dealings with leading securities houses as punishment for their compensation of select clients for trading losses.

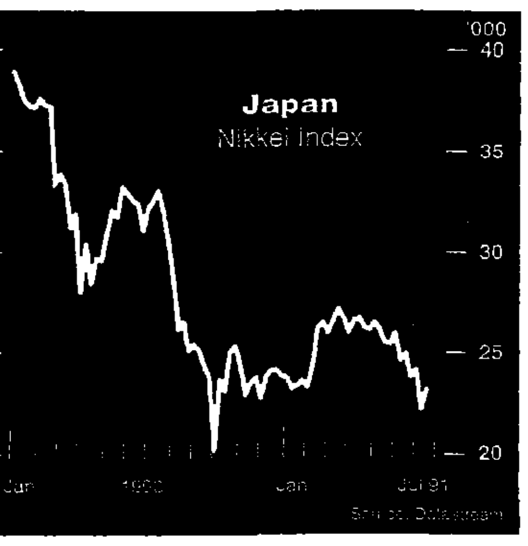
The stock market has been nervously expecting news of further scandals, and traders fear that the market could fall significantly if more evidence of corruption is uncovered. The market is still 40 per cent down on January last year, and the Nikkei average has been hovering around 23,000 without much evidence that a recovery will come soon.

Regardless of the scandals, many Japanese executives believe that new controls on the securities industry are unnecessary and that the market average will soon begin a climb towards 30,000. This optimism persists despite the Bank of Japan's determination to convince Japanese companies that they must reconsider their attitude to the stock market and, more generally, to the cost of raising capital.

The central bank started to push official interest rates higher in May 1989 to slow an overheated economy and to reduce stock and property speculation. The bank was concerned not just about speculative stock purchases by gangster groups, but also by the readiness of ordinary companies to take rising stock prices for granted. After the bank moved on interest rates, Mr Yasushi Mieno, the bank's governor, said companies had to learn that stock prices can move "in two directions".

But central bank officials conceded last week that corporate attitudes have been slow to change despite the scandals and the pressure of a tight monetary policy. Some Japanese economists suggest that only long-term weakness in the stock market will change these attitudes – a period of weakness which they date from January last year, when the market began its sharp fall.

They argue that consistently lower share prices will force companies to review their high expectations of the market and their neglect of ordinary shareholders. Moreover, they say, institutional investors will be unwilling to sit on their large shareholdings, as they have done in the past, confident that prices will rise.



Meanwhile, the Japanese government is under increasing international pressure to reform the financial system. The US has long sought clearer rules and penalties for the securities industry, but Mr Toshiki Kaifu, the prime minister, now in London for the Group of Seven economic summit, has only just embraced the cause of financial transparency. In particular, the US wants the relationship between bureaucrats and financial companies to be more open, with formal guidelines for behavior and less "administrative guidance", the informal advice central to the Japanese system. Last week, the finance ministery promised to review the guidance system and to strengthen its investigative capacity.

Japanese officials are now debating the establishment of an independent watchdog for the securities industry. They are aware of US suggestions that Japan needs a body similar to the US Securities and Exchange Commission. Pressure from the US often plays a role in producing new legislation in Japan, but, as Washington has found in several trade disputes, a change of regulations does not necessarily mean a change in behaviour.

The behaviour that Washington, and the Bank of Japan, would like to alter has been highlighted by the scandals: financial and industrial companies took for granted that larger clients would receive special treatment from brokers; industrial companies presumed that stock prices rarely fell and that the market would provide constant cheap funds.

Attention has been focused on the securities firms' failings, while the 229 clients who received compensation have generally not even been identified. Hitachi, the electronics company, was named in the Japanese press. But the company said it was not aware of having been compensated by its broker and that the small profit reported on its broking account was the result of a shift in its investment mix from stocks to bonds.

Many Japanese executives believe that new controls on the stock market are unnecessary

Japanese companies are also accused by the US of neglecting their shareholders. US negotiators in the Structural Impediments Intitiative (SII), designed to remove "structural" barriers to bilateral trade, argue that higher dividends would increase the cost of capital for Japanese companies and lessen their unfair competitive advantage. However, Japanese executives have maintained that stockholders benefited from rising share prices and that dividends were not the reason for investment.

That argument has been challenged by last year's market fall and the continuing weakness this year in stock prices. While individual shareholders do not form a powerful lobby group, strong pressure for reform has come from the life assurance industry, which has bought and held stocks in the expectation that prices would rise.

Last Monday, the Life Insurance Association of Japan urged Japanese companies to exercise restraint in issuing bonds linked to stocks, which the association fears could harm the health of the Tokyo market. Japanese companies looking for cheap funds have rushed to the Euromarkets in recent weeks to issue bonds which can be converted into stocks, and bonds which come with stock-purchase rights.

These bonds offer lower interest rates than straight bonds, but their cheapness depends on strong stock prices. A day after the association's call, Japanese companies continued to crowd the market and launched $1bn in equity-linked bonds.

Mr Haruaki Deguchi, senior manager of financial and investment planning at Nippon Life, said Japanese companies have not understood that the character of the stock market has altered over the past year, nor have they come to terms with the reality that they will have to pay more for their borrowings. Mr Deguchi is a believer in the theory that the securities industry scandals are part of the much greater but gradual change that began last January and will result in the Japanese financial system becoming more "international" – it will be more competitive, fairer, and less easily exploited.

"You have to stand back from the present problems. These are only a small part of what is going on. In 100 years, we will see that the surge of growth was from 1945 until 1990, and then Japan entered a period of structural change."

His argument is linked to broader factors: the rapid ageing of the Japanese population; the labour shortage; the fading of the "make Japan strong" spirit that has been an important source of inspiration; and a slowing expansion of the economy. He also insists that a small component of change will be life assurance companies' readiness to sell shares. "We are famous for buy and hold'," he said. "But how can you buy shares and hold them when the markets are weak?"

But heavy institutional selling of shares in the present climate would push the Tokyo market to new depths, as would any sign that Japan's complex system of corporate cross-holdings is beginning to unravel. But there are good non-financial reasons to keep such cross-holdings intact. For example, they ensure close manufacturer-supplier links.

Even though calls for reform are coming from several directions, the internal pressure for change will fluctuate with the Nikkei Stock market average. If the market regains strength in coming weeks, life assurance companies will be less demanding of dividend payment increases, and individual investors will see their holdings appreciate.

A stronger market would work in favour of the old ways. The finance ministry would be under less pressure to police the securities companies and the securities companies would be able to assure their old corporate clients that the Tokyo market is a fairly safe bet. The market would again attract the better-heeled of Japan's gangster groups, and the cycle of compromise could start again.

Samuel Brittan

Time to put an end to the summit farce

The so-called western economic summits have long become an irrelevant farce. But they are now becoming dangerous as well. However hard it is to call off any established series of meetings without losing face, the time has now come to make the effort.

The summits now show democratic electoral politics at their worst. This week we will be treated to the spectacle of flushed faces talking into microphones and pursued by hoards of cameramen while they pretend unconvincingly to enjoy their canapés, or the entertainment arranged for them by the hospitality section of the Foreign Office. The security complications alone will make Central London almost impassable. In addition, the prospect of President Mikhail Gorbachev joining the other summiteers has attracted to London innumerable representatives of smaller countries and of private groups, who vainly hope to receive attention, and all of whom would be better off visiting the British capital in a quieter period.

The very name "economic" has become a misnomer. The first of the series took place in Rambouillet when several heads of government were ex-ministers of finance. In the case of the then French president, Valéry Giscard d'Estaing, and the German chancellor, Helmut Schmidt, there was also a strong personal rapport. The idea was to have a quiet discussion out of the limelight. It is possible that the statement of intent issued in 1975 during the recession following the first oil shock, on the need to avoid a trade war, may have had some effect.

The summits have, however, long since degenerated into media circuses. Most of the present western heads of government have no special interest in, nor feeling for, economic matters. If the summits were just bad colossal theatre, sceptical citizens could just decide not to watch. But when they lead to false expectations and pseudo-decisions, the time has come to make a fresh start. The economic business of the Group of Seven is best transacted at the regular meetings of finance ministers. The main contribution of their bosses at summits is to inject expensive prestige ideas which the finance ministers then have to spend time whittling down.

A characteristic example is the structure of the European Bank for Reconstruction and Development. The summit leaders were neither prepared to take a risk and give the president, Jacques Attali, his head, nor insist on someone else. As a result there is a top-heavy structure with a large board of directors sitting in London with little else to do except keep a watch on Attali. Meanwhile, the Bank, instead of concentrating its limited resources on the managable task of helping Poland, Czechoslovakia and Hungary into their economic take-off, is instead dissipating its energies in the vast sands of the Soviet question.

A way has to be reinvented for a handful of leaders who matter to talk to each other quietly

It might be an improvement to drop the fiction that the summit is economic, and with it the long platitudinous reiteration of familiar truths prepared by the "sherpas" several weeks beforehand for the final communiqué. But if it is treated as an Great Power Consort to discuss arms control, international trouble spots, drugs, pollution, the weapons trade and whatever else may be in the air, the composition is wrong.

For a start, western Europe is far too heavily represented. The embarrassment caused by President Mikhail Gorbachev's desire to invite himself, and the difficulty of receiving him politely without making him a member of the gathering, shows that something is amiss.

Western leaders will have the choice between backing Mr Gorbachev, which could involve wasting vast sums of money and discouraging other kinds of evolution in the Soviet Union, or giving the Soviet president a resounding rebuff, which would not be desirable either. The result is likely to be a botched compromise with some gestures of aid, which will not be enough to make a decisive difference, but could still dishearten the many groups who would like to see an end of the Soviet empire, as well as of the Balkan copy known as Yugoslavia.

The stark choices may still have to be faced. But they should not be dictated by the accident of an annual jamboree, the main attraction of which is the publicity that western leaders can attract on an international stage for the benefit of their own electorates. If contacts remain at the level of finance ministers, central bankers, the International Monetary Fund, the World Bank and so on, the issues could be explored on their merits and top-level political decisions taken when the time is ripe without any artificial timetable.

There is, indeed, a strong case for regular meetings of the main powers on which the peace of the world depends. There were, after the second world war, meetings of the Big Five permanent members of the Security Council – the US, the Soviet Union, China, Britain and France. The composition is obviously out of date as Japan and Germany are now among the world powers. It would help if the Europeans could agree to appoint one representative leader, who perhaps could come from different countries in rotation. (Some wits have even suggested that Mrs Thatcher and Jacques Delors could take it in turns to speak for Europe).

Above all, a way has to be reinvented by which the handful of leaders who really matter – and they will differ from one subject to another – can talk to each other quietly, and not pretend to make fresh decisions if none is required. That, after all, was the original purpose of Rambouillet, to which we should now return.

LETTERS

CAP reform an ideal – but not in a form that is a cost to UK taxpayers

From Mr John Gummer MP.

Sir, The credibility of your critique of Mr MacSharry's revised CAP reform proposals ("Importance of farm reform", July 12) would have been enhanced had you included an assessment of its likely increased cost to European taxpayers, which the Commission's own (in my view optimistic) figures indicate will amount to more than Ecu 4bn in 1996.

Of course costs might well be set to rise on present policies unless mitigating action were taken, as it ought to be under the rules. But let us be clear that the Commission has *not* produced ideas for reducing costs to the taxpayer.

You ought to recall that the UK has consistently – and often alone – supported the cause of CAP reform over very many years. We continue to do so. In the past year I have led the support in the Agriculture Council for the Commission's position in the Gatt negotiations and have indeed urged them to move faster to secure a deal. I certainly agree with you that with or without a Gatt deal it is clear that the CAP is in need of reform.

It seems odd that a newspaper rightly committed to efficiency in general should support what would amount to the decommissioning of efficient agriculture in particular. I am certainly not opposed to the price cuts suggested by the Commission. Further, I will be arguing *for less* than full compensation for those price cuts in the council today. What I shall be objecting to is proposals which compensate UK farmers by less than farmers from other member states. You mention very small producers (most of them in the Mediterranean countries). Many of them can never be viable and I would support a scheme which enabled them to retire on a pension, provided farm structure were improved as a consequence.

Taxpayers and consumers throughout the Community stand to gain from reform of the CAP. It is a major UK objective. But that is absolutely no reason why we should accept it in a form which discriminates against UK farmers, while pushing up the bill for UK taxpayers.

John Gummer,
Minister of Agriculture,
Ministry of Agriculture,
Fisheries and Food,
Whitehall Place,
London SW1A 2HH

Fraud: why there is a need for more clarity and directness

From Mr Hugh Aldous.

Sir, I know nothing of BCCI, and this letter is not inspired by any particular fraud.

Frauds call for a speed and directness of response from professionals which is currently rare. The Financial Services Act had one of its roots in a fraud at Norton Warburg where I was the investigating accountant. I took a matter of 36 hours to conclude that there was fraud, although proof took much longer.

Lawyers advised that no "whistle" should be blown and there was little that could be done without going through formal processes.

It was Harry Benson, then at the Bank of England, who read my draft views, tossed them back across the desk and said simply: "It's a jail job." We said to the directors: "If you don't blow your own whistle, we'll blow it for you."

The reputation of the City is built on clarity and directness, such as Benson's. We could do with a re-birth of it!

Hugh Aldous,
Robson Rhodes,
186 City Road,
London EC1V 2NU

Road pricing should encourage the electric commuter car

From Mr Howard Densley.

Sir, Your editorial, "A green agenda for business" (July 9), recommends that experiments on road pricing be encouraged and the use of the motor car more heavily taxed.

Is this not a golden opportunity to promote the idea of a fiscal incentive for the use of electric vehicles?

The stench of exhaust fumes in London is already appalling. So imagine the relief if small electric commuter cars became an economic proposition for the average commuter, and they formed the majority of vehicles on the streets of London. Average traffic speeds are already so low that few would suffer real inconvenience.

Surely all that is needed to create the necessary demand for electric vehicles is a road-pricing system applying to petrol and diesel driven vehicles only, and possibly a reduced road tax for electric vehicles.

I understand that with existing technology a practicable range for an electric car would be about 50 miles. This would surely satisfy the needs of many commuters.

Howard Densley,
7 Heronsforde,
Ealing, W13

Reflecting on the significance of the east German wage explosion

From Mr Holger Schmieding.

Sir, In Martin Wolf's excellent article, "A nation unified, and yet apart" (July 1), he discusses the causes of the east German wage cost explosion and, hence, the collapse of the production of tradable goods in the east. Let me add a historical note.

One East German mark had always been worth much less than one unit of the Bundesbank's product. In the debate on the terms of currency union, the Bundesbank Council on March 31 1990, opted for a (socially cushioned) 2:1 conversion of savings and wages. A few days later demonstrations in the still-GDR sprang up against this alleged "halving of wages". On April 23, Chancellor Helmut Kohl ruled in favour of 1:1 for wages.

By overriding the Bundesbank – and implicitly also his minister of finance who had participated in the session of the Bundesbank Council – Kohl gave the signal to east Germans that Bonn was willing to disregard monetary and fiscal considerations and to let the west German taxpayer foot a large part of the east German wage bill. Thereafter, nothing could have stopped east Germans exploiting this soft budget constraint to the fullest.

Encouraged by west German trade unions, east Germans demanded further massive wage increases – which the managers of state-owned and state-subsidised firms were happy to grant.

The Bonn government can point to one important political argument in favour of its 1:1 approach: in early 1990, it may have been necessary to give in to most east German demands in order to make sure that nothing could get in the way of political unification. Indeed, the political outcome of immediate and peaceful reunification within Nato and the EC and with the consent of all our neighbours is so marvellous that one may well grant the politicians the benefit of the doubt in this respect.

Nonetheless, Bonn should at least have braced itself for the economic slump which had thus become inevitable in the east. Unfortunately, few precautions were taken to alleviate the impact of the wage cost explosion. The political debate on non-distortionary kinds of subsidies and on a thorough deregulation has begun only with a long delay.

The east German wage increases are sometimes defended on the grounds that they were triggered by actual or impending migration. Politically, this argument is valid to some extent as migration was clearly on the minds of some of the politicians who made promises to east Germans; economically, the argument is mistaken. Wage increases which firms had simply granted to keep valuable workers would not have caused unemployment, ie the dismal outcome we observe in east Germany. The threat of mass unemployment which resulted from the east German wage cost explosion may induce more east Germans to go west than any wage differential.

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FINANCIAL TIMES
Monday July 15 1991

Mitterrand support for threatened US military action against Iraqi nuclear sites

France ready to join attack on Iraq

By George Graham in Paris and **Mark Nicholson** in London

PRESIDENT François Mitterrand warned Iraq yesterday that France would join the US in any new military action if Baghdad failed to give full details of its nuclear programme.

President George Bush, who held talks with Mr Mitterrand before the G7 summit meeting in London, immediately welcomed the warning. "I am convinced that once again France and the US are looking in the same direction on this important matter," he said at a joint press conference for the two heads of state.

Mr Mitterrand said earlier in a French television interview: "If we have to protect peoples which are martyred, persecuted, massacred by the government of Saddam, if we see Iraq arming itself with nuclear weapons, then military intervention will be just."

His remarks follow a similar warning last week from Mr John Major, the British prime minister, and align the US, Britain and France, the main prosecutors of the Gulf War against Iraq, on a possible further military strike against suspected Iraqi nuclear sites.

However, Mr Mitterrand said Iraq appeared to be backing down from a position of non-co-operation with UN nuclear investigators "foot by foot" and that the UN's warnings had "begun to be heard".

He said no decision had been taken to reinforce France's military presence in the region but added that he was ready to do this if necessary.

Throughout the military build-up and eventual war against Iraq, France appeared more restrained than either the US or the UK in its willingness to step up the use of force and was determined to stick to the letter of UN resolutions against Iraq.

President Mitterrand inspects injured French soldiers who served in the Gulf War before Paris' Bastille day parade

Mr Mitterrand said that he wanted any future intervention to be targeted on nuclear sites and that information about these sites must be "sufficiently certain" to justify an attack. "Our effort must be reasonable, reasoned – we must remain very faithful to the principles of law defined by the Security Council."

Iraq meanwhile responded to mounting pressure to expose its nuclear programme to full UN scrutiny both by launching a diplomatic counter-offensive to head off a possible US strike and by handing over a second detailed list of facilities and equipment to UN investigators in Baghdad.

The list, not available last night, follows Iraq's revelation last week in a surprise letter to the UN that it had been conducting a secret uranium enrichment programme, which Baghdad said was purely for research purposes.

Yesterday's further disclosures follow a meeting late last week at which the UN ambassadors of the Security Council's five permanent members told Mr Abdul Amir al-Anbari, the Iraqi representative to the UN, that Baghdad must make full disclosures of its nuclear programme by July 25. British officials would not spell out the possible consequences if Iraq failed to comply.

Gulf states meet, Page 3

Violence threatens Yugoslav peace accord

By Judy Dempsey and Laura Silber in Belgrade

VIOLENCE between Croats and Serbs yesterday put in jeopardy the memorandum to implement the Brioni peace accord, which had been agreed on Saturday night.

A gun battle between Croat police units and Serbs broke out in Donji Cuntic, a village 30 miles south-east of Zagreb, the capital of Croatia, after Serbs surrounded the village police station. Four villages in the area, including Donji Cuntic, were reported to have been evacuated; heavy gunfire was heard elsewhere in eastern Croatia. Local hospital staff said three police officers had been wounded, though detailed casualty figures were unavailable.

The memorandum, agreed between representatives from the European Community, Slovenia and Croatia, set down conditions for implementing the Brioni accord. The presidency also accepted the accord, which was drawn up by the EC last week.

The conditions include sending between 30 and 50 EC observers who will monitor the ceasefire in Slovenia and, if necessary, in Croatia, for three months. They will also supervise a three-month suspension of Slovenia's and Croatia's declarations of independence.

The fighting in Croatia came a day after Mr Stipe Mesic, a Croat and president of the state presidency, said Croatia would not disarm its local paramilitary units.

The disarming of all paramilitary units in the republics, with the exception of federal army units and regular police forces, had been agreed at the weekend by the collective presidency.

The accord called for a ceasefire, the withdrawal to barracks of Slovene and federal units, and a three-month moratorium on the implementation of Slovenia's and Croatia's declaration of independence.

However, the acceptance of the Brioni accord was linked to fresh demands which were set by the presidency but influenced by the federal army.

The presidency stipulated that:

- All local paramilitary units be disarmed by July 18. These include units in Slovenia and Croatia.
- The recruitment of conscripts into the federal army should be resumed in return for demobilisation of units called up to compensate for the shortfall in conscription. The governments of Slovenia and Croatia said last month they would refuse to send conscripts to the federal army.

However, the presidency's order was completely undermined as soon as Mr Mesic returned to Zagreb, when he said Croatia would not disarm its own republican guard.

In the climate of increasing polarisation between the republics, the Croatian government believes the federal army is increasingly becoming a Serb-dominated army that will defend the Serbs in Croatia against Croat police.

In addition, Mr Mesic, and Mr Franjo Tudjman, president of Croatia, are becoming increasingly hostage to Croatia's far-right nationalists.

Moscow and US draw closer on N-treaty

By Peter Riddell, US Editor, in Washington

THE US and Soviet Union have substantially narrowed their differences over the treaty to reduce both sides' long-range nuclear weapons.

Negotiators were last night in their fourth day of intensive talks aimed at finalising the Start treaty, which the US has said must be agreed before President George Bush goes to Moscow for a summit with President Mikhail Gorbachev.

There are still hopes that such a meeting might be held later this month or in early August.

President Bush said last night in France that the negotiators were "very close", although some problems need to be finalised before "we can say that we have a deal".

As an indication of their determination to finish the talks after several abortive attempts, Mr James Baker, the US secretary of state, and Mr Alexander Bessmertnykh, the Soviet foreign minister, postponed their planned departures from Washington.

The main outstanding issue concerns downloading – or how many spare spaces for warheads each side can keep on its missiles, which can often carry up to 10 warheads, while still remaining in the much reduced limits on numbers of warheads set by the treaty.

Each side would prefer to carry fewer warheads on existing missiles rather than build new ones with a smaller warhead capacity.

The US has been concerned that in a crisis the Soviets might load the missiles with their full complement of warheads and apply the remaining quota to other missiles not being used.

The Soviets have sought assurances that the US would not load cruise missiles onto B1 bombers.

Negotiators say the other two difficult issues – the definition of new types of missile and exchange of information in the monitoring of each others' missile tests – have mainly been sorted out.

The length of time the talks are taking shows the complexity of the issues and the desire at the highest level to reach a deal.

Chinese floodwaters rise as toll passes 1,000

By Yvonne Preston in Beijing

WATER levels in all big rivers in eastern China continued to rise at the weekend with more torrential rain forecast for some of the areas hit hardest by floods. Eighteen of its 30 provinces are affected by some of the country's worst flooding in years and more than 1,000 people have died.

While torrential rain and floods have killed 101 people in the northern part of central China's Hunan province since June 30, severe drought in the southern part has left hundreds of thousands of hectares of rice paddies dry and more than 600,000 people short of water.

The city of Wuhan, capital of Hubei province on the Yangtze River, had 1,659mm of rain, 30 per cent of the total rainfall in a normal year, in two weeks, breaking an 1880 record. More than 50,000 dwellings in the city have been submerged and tens of thousands of people have been evacuated to factories and schools or perch in makeshift shelters on the Yangtze dykes.

The level of Lake Taihu, one of the five biggest lakes in China, in the densely populated coastal Jiangsu province, is still rising. In the nearby cities of Suzhou, Wuxi and Changzhou, 320,000 people are trapped by floods and 380,000 houses and 11,000 factories have been submerged.

More heavy rain is forecast along the upper and middle reaches of the Yangtze River and many towns and cities are threatened.

Some 76m people are affected, 640,000 houses have been destroyed, 1m more are damaged, 2m people are homeless and a quarter of those in areas under water are suffering dysentery, malaria and other diseases, according to the latest updated reports.

So far China has spent 400m yuan (£63m) on disaster relief and sent 700,000 tonnes of grain to stricken areas where 12m soldiers and civilians are fighting the floods.

The Agricultural Bank of China has promised loans worth Yn5bn to government departments organising flood relief. China Daily reported at the weekend that Yn200m in compensation had already been paid by the country's main insurance underwriter, the People's Insurance Company of China. Claims so far total Yn700m. Insured properties account for only a small part of total damages.

US warned on trade, Page 3
Human rights mission, Page 3

UK's Midland Bank had secret defence sales unit

Continued from Page 1

group and in relation to Midland's own shareholders.

The latest accounts filed at Companies House show that this mysterious group has now ceased active operations, with the parent company still showing accumulated losses of more than £30m after a number of attempts to recapitalise and restructure the group.

Most of the MITS subsidiaries have now been incorporated into other parts of the Midland group.

The Midland defence team worked closely with a number of government departments.

One of its leading members, Mr Stephan Kock, a non-executive director of Astra Holdings, the troubled munitions company, had links with Britain's intelligence services. Astra is the subject of a British Department of Trade and Industry inquiry.

The team had a wide-ranging brief to build up Midland's defence business with a particular emphasis on the financing of arms sales to the Middle East and Asia.

The team of military veterans was set up in 1984 and operated in conditions of unusual secrecy within the bank.

Mr Geoffrey Taylor, chief executive of Midland Bank from 1982 to 1986, has told the Financial Times that he had never known of the department's existence or any of the consultants employed there. He said he knew that one of his senior executives was working on exports of a "defence type nature".

"I don't think quite frankly this was of such a nature that it ought to have been shouted from the house tops . . . I don't think it's the sort of thing that a chief executive should necessarily know about."

Mr George Barrett, chairman of MITS at the time and the man named by the bank as responsible for setting up the defence unit, has told the Financial Times he cannot recall doing so.

The team worked closely with International Military Services, the UK government's arms sales company.

The scope of the defence team's operations and its close ties with the government was described by one of its members: "Some of it was export finance, development finance, working capital; some of it involved persuading defence companies to transfer their bank accounts to Midland."

"Clearly we were in very close touch with the Ministry of Defence and the Foreign and Commonwealth Office over what was being allowed and what was not being allowed." He added: "It was a policy to sell to friendly countries."

WORLDWIDE WEATHER

		°C	°F
Ajaccio	S	27	81
Algiers	S	31	88
Amsterdam	S	19	66
Athens	S	33	91
Bahrain	S	37	99
Bangkok	C	31	88
Barcelona	F	27	81
Beirut	-	-	-
Belfast	C	15	59
Belgrade	F	33	91
Berlin	R	17	63
Biarritz	Dr	18	64
Bombay	R	26	79
Bordeaux	C	21	70
Boulogne	F	16	61
Brussels	C	19	66
Budapest	F	31	88
Buenos Aires	F	9	48
Cairo	S	33	91
Cape Town	S	16	61
Caracas	F	28	82
Casablanca	S	29	84
Chicago	S	18	64
Cologne	F	19	66
Copenhagen	F	21	70
Corfu	S	30	86
Dallas	-	-	-
Dublin	C	17	63
Dubrovnik	S	19	66
Edinburgh	C	16	61
Faro	S	33	91
Florence	C	28	82
Frankfurt	C	21	70
Geneva	C	21	70
Gibraltar	S	27	81
Glasgow	C	16	61
Helsinki	S	23	73
Hong Kong	C	29	84
Innsbruck	R	16	61
Inverness	C	15	59
Islamabad	F	31	88
Istanbul	S	27	81
Jakarta	F	33	91
Jersey	C	17	63
Johannesburg	F	13	55
Lima	C	20	68
Lisbon	S	34	93
London	F	21	70
Los Angeles	C	17	63
Luxembourg	C	19	66
Madeira	C	23	73
Madrid	S	33	91
Majorca	S	30	86
Malaga	S	35	95
Malta	S	29	84
Manchester	F	17	63
Manila	F	33	91
Melbourne	F	13	55
Mexico City	-	-	-
Miami	S	27	81
Milan	C	21	70
Montreal	S	19	66
Moscow	F	20	68
Munich	C	16	61
Nairobi	-	-	-
Naples	C	28	82
Nassau	F	34	93
New Delhi	S	36	97
New York	C	22	72
Nice	S	27	81
Nicosia	S	32	90
Oporto	S	30	86
Oslo	R	15	59
Paris	C	17	63
Peking	S	30	86
Prague	R	19	66
Reykjavik	Dr	10	50
Rhodes	S	28	82
Rio de Janeiro	R	19	66
Rome	F	28	82
Salzburg	R	17	63
San Francisco	C	13	55
Seoul	C	29	84
Singapore	F	31	88
Stockholm	F	22	72
Strasbourg	F	20	68
Sydney	F	15	59
Taipei	F	35	95
Tangier	S	35	95
Tel Aviv	S	28	82
Tenerife	S	24	75
Tokyo	C	23	73
Toronto	S	16	61
Tunis	S	35	95
Valencia	S	32	90
Venice	S	22	72
Vienna	C	23	73
Warsaw	S	24	75
Washington	F	26	79
Zurich	C	17	63

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

Why lay investors are afraid of the City

By Anthony Harris

Local authorities, we read, are rushing to switch their deposits into familiar high street banks and building societies. This has been widely described as a flight into quality in the wake of the BCCI closure.

This sounds quite comforting, despite the threat to many smaller banks – a belated display of prudence. Give it its proper name, though, and the message is bleak. It is a flight from the City; in a market which once boasted that its word was its bond, outsiders no longer know whom to trust.

This is not just a response to BCCI, or indeed to our long parade of local scandals – Johnson Matthey, Guinness, Blue Arrow, Barlow Clowes, Lloyd's and all the rest. In New York, corporate managements borrowed some $600bn in the 1980s to buy themselves out of the market; some complained that they dared not take a problem to an investment banker or even a corporate lawyer for fear that they would be "put into play" – the casino language is revealing. Clients feel like potential victims.

Even without scandals, investors would have ample cause for worry, for there is far too much plain incompetence on display. Pension fund managers learn from their comparative surveys that those who entrust their funds to City fund managers regularly under-perform the self-managed funds.

Ordinary personal investors have learned, sometimes at heavy cost, to distrust the sort of investment analysts who tipped Polly Peck less than two months before it collapsed – some of whom still have jobs.

Hammersmith poll-tax payers were only rescued by the House of Lords from the losses incurred by the City whiz-kid they had hired to manage their interest rate exposures, which makes them luckier than Allied Lyons shareholders, or the Tokyo investors who discovered that big losses are for little people.

At least, though, the Allied Lyons shareholders got an apology and a resignation; Nat-West directors also did the decent thing after Blue Arrow was exposed. Tokyo investors saw those who had impoverished them suffered only red faces, a humiliating formal bow, and a slap on the wrist: the victims are understandably sulking. The money brokers who placed local authority funds with BCCI are skulking; and the professionals who helped Hammersmith to get so far out of its depth have simply whinged about the law, with endorsement from Threadneedle Street.

What we are seeing here is a dangerous decay in professional standards. What is the explanation? Some would simply say that standards were bound to be damaged in the Big Bang. The old and highly effective self-discipline of the City when it was an in-bred cartel could not be replaced by rule-books, however long and burdensome. That was an argument that the Bank of England used to rehearse endlessly, and there is a lot in it.

> **'Let me have men about me that are fat, and such as sleep o' nights . . .'**
> (Shakespeare, Julius Caesar)

The old system was essentially that of a club; as one clearing banker was heard to remark after the Johnson Matthey collapse: "We should really be blaming ourselves. After all, none of them had ever met a single member of their board."

That form of self-discipline was bound to be weakened by the abolition of exchange controls in 1979, when the exclusive sterling market became intergrated with the vast and rapidly growing international market in London. Nobody could expect to know all the players any more.

The old system conferred large privileges on its members, but they all knew that privilege confers obligations. The members grew fat on privileged information, excessive dealing commissions and largely unnecessary underwriting fees – in the days of truly punitive taxation, one prominent financier kept a pile of acceptances on his hall table for less privileged guests to sign. But in return for these feudal rents, as it were, they behaved like aristocrats: lazy, not always clever, but almost invariably honourable, and determined that no outsider would suffer if one of their number misbehaved.

In supporting high standards, easy money was probably as important as the network of old school friendships. Certainly the timing of the scandals in London suggests as much. Deregulation made the cat's-cradle of mutual acquaintance potentially fragile, but for a time the great bull market kept everyone comfortable. It took the recession to break the weakest ties. Most of the worst cases in London have been at bottom efforts to cover up and recover losses (though wrong-doing in New York has been more varied and exciting); there are no longer the funds to support a regime of *richesse oblige*.

Shakespeare knew something the Bank of England apparently forgot when it allowed gross over-capacity to be established, casting itself as a Darwinian God of natural selection. It got what it inadvertently wanted, red in tooth and claw.

What's to be done now? It is certainly not possible to go back to the old regime, but everyone must by now be aware of the dangers of the new one, and perhaps a little less hypnotised by such slogans as "efficiency" and "competition" in a field where they are not really apt. Making deals is not like making widgets, and the discretion expected in good client relationships is hard to reserve in a regime which works hard for transparency, but relies on chinese walls to prevent too much of it.

One part of the old regime is surely worth a second look: single capacity (the rigid separation of dealer and principal). We should also study the US system of taking failed banks into administration, as the Chicago Fed did with Continental Illinois – only don't call it "nationalisation", the N-word which may have blocked such thoughts until now.

Meanwhile, supervision must be tighter, and financial products should carry bigger health warnings. In the long run, it is true, the problem could solve itself – frightened outsiders dealing only with a respectable core of major houses which maintain standards by using the blackball, like a club. That's how it happened the first time round.

FINANCIAL TIMES SURVEY

JAPAN

Delicate balancing act for political parties; New hub for exports Page 3

FT writers examine the evolution of foreign relations Page 8

SECTION III

Monday July 15 1991

Although Japanese confidence has been undermined by political, economic and financial shocks, the country continues to progress on many fronts. **Stefan Wagstyl** looks at the challenges as Japan seeks to become a full member of the industrialised family of nations

The nervous nineties

JAPAN, which ended the 1980s brimming with confidence, has started the new decade with some painful political, economic and financial shocks.

The country is under fire overseas for its apparent lack of support for allies in the Gulf crisis and for its reluctance to aid eastern Europe and the Soviet Union.

Japanese financial companies have had their headlong international expansion brought to an abrupt halt by the impact of a plunge in the stock and property markets and of a series of damaging scandals. Even industry is seeing its confidence undermined by high real interest rates, concerns which the Bank of Japan partly addressed by a half point cut in the official discount rate on July 1.

Mr Toshiki Kaifu, the Japanese prime minister, who is due to arrive in London this week for the summit of G-7 leading industrialised nations, will find it hard to talk as boldly of Japan's future as he did in Houston a year ago.

And yet, it would be wrong to exaggerate concerns about Japan's position in the world. The country continues to make steady progress on many fronts. Disappointment about its failure to take bold political initiatives in the past 18 months stem largely from unrealistically high expectations. Japanese officials had hoped to have time to develop an international political role for their country at a leisurely pace. Instead, they have been forced to give answers to questions they had only begun to consider. It should not be surprising that their response has been hesitant.

The turmoil in the financial markets is mainly the after-effects of the unprecedented boom in equity and land values in the 1980s. Investors who were tempted to over-borrow when the cost of money was low are now paying the price for their excesses. Companies which tolerated unethical and even fraudulent practices during the boom are now having their misdemeanours exposed. The general public is angry, not least because the rewards of the 1980s, in comparison with the progress of the previous 30 years, were so unequally shared.

Underneath the financial froth of what Japanese call "the bubble economy", the real economy seems almost as strong as ever. Companies continue to pour funds into plant and equipment, research and development and new products. The growth in investment has slowed, but it has remained at a high level. If labour shortages, high interest rates and weak demand are squeezing some companies, their international rivals are often in a much worse position. In spite of the world slowdown, Japan's output is expected to grow 3.5 per cent this year, compared with an OECD average of 1.2 per cent and around zero for the US.

Nevertheless, as this survey will show, Japan has some serious challenges to face if it is to fulfil its policymakers' wishes of becoming a full member of the industrialised family of nations.

The most immediate question is foreign policy. The Gulf crisis brought the US and Europe closer together, if only in a common feeling of solidarity, but it served to underline important differences between Japan and other G-7 countries. Notably, in spite of the fact that Japan obtains 70 per cent of its oil from the Gulf, Japanese felt the crisis essentially had little to do with them.

But in the wake of foreign criticism of its position and the stimulus of constant television coverage of the war and its tragic aftermath, Japanese have started to question some of their basic assumptions. In particular, politicians have acknowledged the country's pacifist constitution need not be interpreted as strictly as it has in the past, when the overseas despatch of any servicemen on active duty was banned.

The decision this spring to send a fleet of minesweepers to the Gulf was for Japan a momentous one – even though it was taken only after the fighting had ended. The ruling Liberal Democratic Party is discussing the formation of a Japanese force, for deployment in United Nations peace-keeping units. Some politicians are also pressing for a seat for Japan on the UN Security Council – although few expect this to be granted quickly given the complexities of UN politics.

A popular argument in Tokyo is that "one-country pacifism" is no longer enough: Japan must do more to assure the peace of the whole world. The principle is being applied to Overseas Development Aid. Japan, which had overtaken the US as the world's biggest donor, means to limit support for countries which have an over-large military budget or export substantial amounts of arms.

Japan's allies will want to see how these changes in attitude affect policy. A key test will be President George Bush's reaction. Before the Gulf war, he was fond of promoting a "global partnership" with Japan, but he dropped the rhetoric during the crisis because the words sounded hollow. Japanese officials are anxious that the phrase should return to the presidential vocabulary.

Unfortunately for Japan, attention in Washington is now focused on eastern Europe and the Soviet Union, where Japan has few historic links and little experience in offering support. It has contributed handsomely to the EBRD development bank but is reluctant to become more actively involved in aid. So, as in the Gulf war, Tokyo risks being isolated from any common effort put together in the US and Europe. There are, of course, policy differences on the matter between Washington and European capitals, but these might be put aside if the crisis became even more acute than it is already.

Underlying Japan's political relations with the US and Europe are the constant tensions over trade. The battles are less fraught than in the mid-1980s because of a fall in the overall trade surplus to \$52bn last year, down from \$78bn in 1988. Although the surplus with the EC is now rising to the consternation of Brussels, the politically more important surplus with the US is well down.

Also, Japanese foreign investment is provoking less anger than it did even a year ago, since the country's long-term capital outflow fell sharply last year – to \$43.5bn from \$89.2bn. Curbed by high interest rates, Japanese companies paused for breath after the rapid expansion of the 1980s. Even allowing for Matsushita Electric Industrial's \$6.1bn purchase late last year of MCA, the American communications combine, high-profile acquisitions of the kind which raise political hackles have become quite rare.

Western countries' chief economic concern with Japan is no longer mainly with formal barriers preventing entry into the Japanese market but with so-called informal obstacles – including restrictions on investment in Japan, the distribution system, and the high cost of doing business. Some western officials are particularly concerned about Japanese groups' dominance in key industries – including electronics – which threatens to drive some of their American and European rivals out of business altogether.

Japanese officials admit further domestic reforms are needed. In the words of a senior foreign ministry official: "Japan has a system which works perfectly as a closed system. But when you introduce foreign elements it goes wrong. The system has to be readjusted."

But the problem is that delving deep into the Japanese economy leads foreigners to demand complex and sensitive changes. So the risk of appearing to bully Japan increases and with it the danger of a hostile Japanese reaction. Japanese are becoming more and more insistent that western countries' lack of competitiveness is largely their own fault. For example, the US-Japan talks called the Structural Impediments Initiative (SII) – covers weaknesses in both economies, not just Japan's. As Mr Masaru Hayami, chairman of Keizai Doyukai, an employers' association, says: "Internationalisation does not mean westernisation. It's a two-way process."

On the look-out: a Japanese sailor keeps watch aboard a minesweeper in the Gulf as his countrymen consider options for a greater contribution to international affairs

IN THIS SURVEY

ECONOMY: Japan's trade surplus has started to rise again this year, raising fears that the opening of the Japanese market is being reversed; Foreign direct investment slowed in the 1990 fiscal year, after five years of rapid expansion................Page 2

POLITICS: Japanese politicians have been condemned for their slow response to international crises. Robert Thomson looks at the complexities of political life......... Page 3

FINANCE: High interest rates, the collapse of the Tokyo stock market, and financial scandals have sapped the confidence of banks and securities houses....................Page 4

INDUSTRY: Japanese designers are preparing for their big moment as new, stylish high-technology comes on to the market..........................Page 5

CINEMAS: The average home-produced film shown in Japanese cinemas is badly made and poorly acted........... Page 6

ART: The Japanese have been the rogue elephants of the art markets but now they are buying back their own heritage.......... Page 6

MAGAZINES: Magazine sales have risen every year for the past five years, and last year totalled 35.9bn.........Page 6

SPORT: Sumo wrestling gets to grips with rising stars.........................Page 7

FOREIGN RELATIONS: United States, United Kingdom and European Community............. Page 8
Soviet Union and China........................ Page 9
Middle East and South-east Asia................Page 10

RICE and GATT: Going against the grain...Page 11

KEY FACTS...........Page 12

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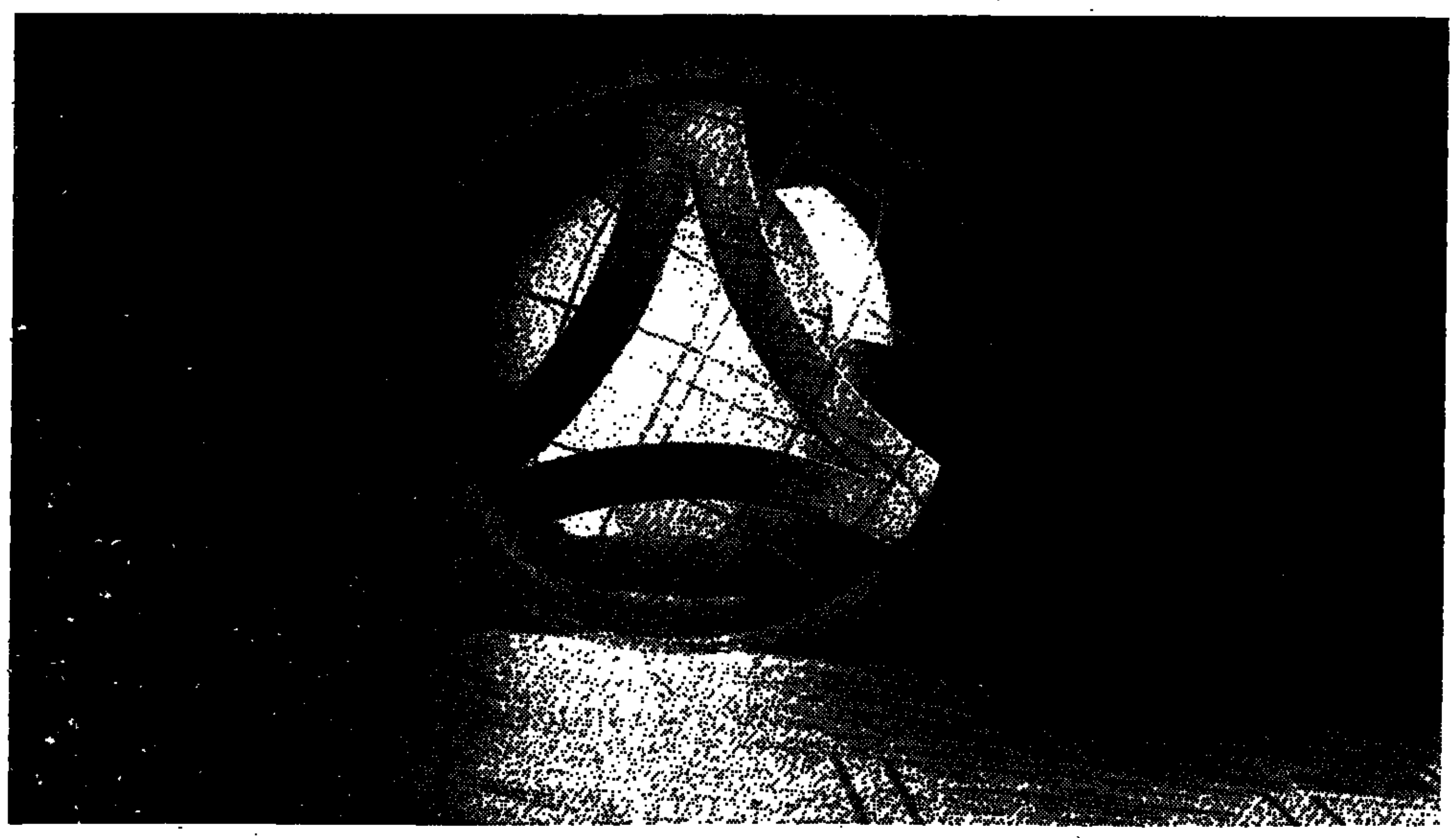


An increasing current account surplus spells trouble for Japan's international economic relations, writes **Edward Balls**

Barriers come down but trade gap widens

JAPAN cannot win. In the mid-1980s the US highlighted Japan's large current account surplus as evidence that its allegedly cartelised domestic market was closed to imports. Since then the surplus has more than halved, but the accusations have intensified.

Japan's trade surplus has started to rise again this year, raising fears that the opening of the Japanese market is being reversed. The trade surplus in the first five months of 1991 was 32.4 per cent higher than over the same period in 1990. The Yen value of exports rose by 13.4 per cent and imports by just 9.4 per cent.

A rising trade surplus spells trouble for Japan's international economic relations. Mr Noboru Hatakeyama, vice-minister for international affairs at the ministry of trade and industry, is particularly concerned by "Japan's widening trade imbalance with the EC".

While Mr Hatakeyama's words may be politically astute, they are almost certainly economically misplaced. Japan's current account surplus is a conceptually flawed measure of the degree to which the Japan is open to imports.

The current account surplus measures the difference between total savings and domestic investment. It fell to 0.7 per cent of gross national product in the fourth quarter of 1990, from a peak of 4.5 per cent of GNP in 1986, as Japan's domestic investment accelerated and consumers reduced their savings.

This trend has been partly reversed this year as the gap between Japan's savings and domestic investment has widened again. Higher Japanese interest rates, introduced in response to asset price inflation, have reduced the growth of investment and consumption. The surplus is likely to widen further if, as expected, the annual rate of Japanese economic growth drops below 4 per cent this year, from 5.6 per cent in 1990.

While the current account balance is determined by macro-economic aggregates, more sophisticated critics point to Japan's low ratio of manufactured goods to GNP, and to high imported goods prices, as evidence that Japanese market practices restrict imports.

This criticism of Japan has continued alongside a rapid increase in Japanese imports in recent years. The volume of manufactured imports rose by 117 per cent between 1985 and the first quarter of 1991, while total imports grew by 63 per cent. As a result, the share of manufactured goods in total imports rose from 41.8 per cent in 1986 to 50.3 per cent in 1990.

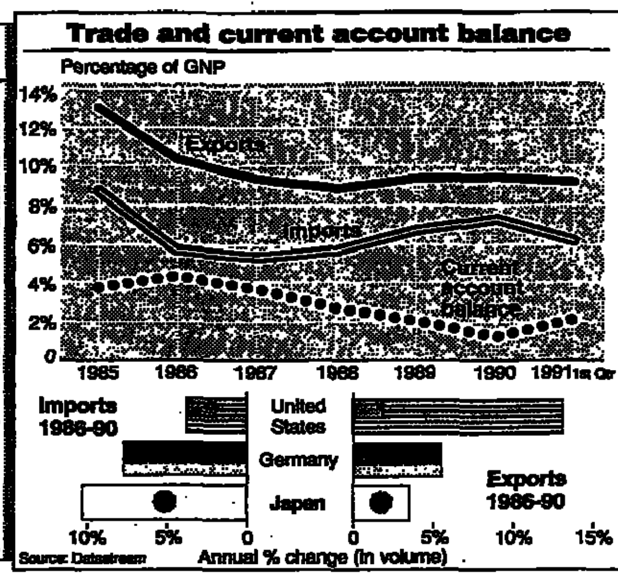
In fact, Japan had a faster growth of import volumes and a slower growth of export volumes than either the US or Germany between 1986 and 1990. The main reason was the yen's 42 per cent appreciation on a trade-weighted basis between 1985 and 1989. This made Japanese exports expensive, imports cheap and encouraged Japanese companies to invest domestically.

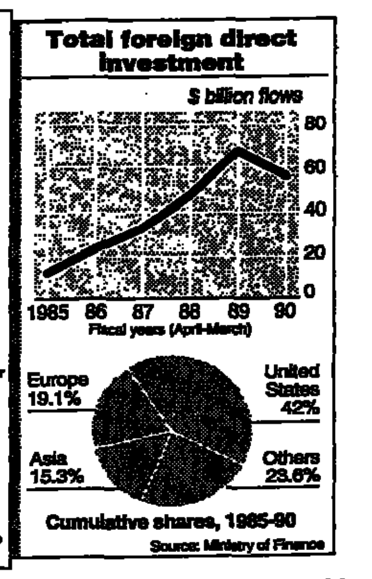
Yet Japan still imports a surprisingly small volume of manufactured goods relative to its economic size. The ratio of Japanese imports of manufactured goods to GNP was only 3.4 per cent in 1990, compared to 5.9 per cent in the US and 14.5 per cent in Germany.

There are four commonly cited explanations for the relatively closed nature of the Japanese economy: Japan's location and factor endowments; official trade barriers; collusive practices by Japanese companies; and consumer attitudes.

That Japan's import to GNP ratio is relatively low is not conclusive evidence of structural barriers to imports. For Japan's exports of manufactures were also less than half those of Germany in 1990. Japan's peculiar mix of factor endowments and its relative isolation, geographic and cultural, contribute to its low ratio of total trade to GNP.

Nor is Japanese trade policy any more overtly protectionist than in other developed countries, with the exception of the politically sensitive rice market, where imports are completely prohibited.





Have Japanese companies, then, erected barriers to hinder the inflow of imports? There is evidence that imported goods sell at much higher prices in Japan than elsewhere. A joint study by the US department of commerce and the ministry of trade and industry in 1989 found that exactly similar goods were on average 99 per cent more expensive in Japan than in the US.

Could these differences reflect a decision by foreign producers to sell their products in low volumes at high prices? Not so, according to Mr Robert Lawrence, a senior fellow at the Brookings Institute[1]. Mr Lawrence shows that the average export unit value of the US goods included in the joint survey was only 17 per cent higher when sold to Japan than to Germany.

The bulk of the mark-up is, instead, absorbed by inefficient Japanese distributors, this being a result of the lack of competition between retail stores. But surveys also find that prices of exportable goods are more expensive in Japan. This evidence does not show that imported goods are discriminated against.

An important reason for the inefficiency in retailing has been Japan's Large Scale Retail Store Law. In practice, local authorities have used this law to delay the opening of new retail stores while they consulted with existing retailers, resulting in uncertainty and delay for potential investors. New stores, it is argued, are needed if imports are to be made available to consumers.

In last year's Structural Impediments Initiative talks, Japan agreed to amend, though not to abolish, this law. It has limited the waiting period for new stores and partially exempted stores that sell imports. There has been a rapid increase in new stores.

A related criticism concerns the behaviour of Japan's distinctive system of interlinked corporate groups, or keiretsu. Mr Lawrence argues that keiretsu obstruct imports because general trading companies do not import goods which compete directly with products produced by a group member. In 1986, Japan's nine largest trading companies handled 66 per cent of total Japanese imports.

There are two main types of keiretsu: horizontal ties between companies in different industries, normally including a trading company and a lead bank; and vertical ties between a big industrial company and its suppliers and distributors.

Mr Lawrence finds that import penetration is low in industries dominated by horizontal and vertical keiretsu. However, he also finds weak evidence that vertical keiretsu tend to boost export performance, which suggests that these links also raise economic efficiency through risk and information-sharing.

Mr Gary Saxonhouse, of Michigan University, argues that keiretsu are an issue whose time has passed[2]. He believes the deregulation of the distribution system will reduce the share of imports handled by trading companies, allowing foreign companies to bypass any remaining obstacles created by keiretsu.

The Japanese government, through the Japanese External Trade Organisation, has been promoting direct links between foreign manufacturers and domestic Japanese retailers. Jetro, originally set up to promote Japanese exports, now spends 90 per cent of its budget promoting imports.

Mr Shusaku Hirano, associate director of the import promotion department, says that Jetro's staff are embarrassed that they no longer have time help Japanese exporters. "We have to say 'We have a trade library here – come down and look for yourself'."

Since competition policy seems the obvious way to reduce the remaining obstacles to the availability of imports, the Japanese government agreed to strengthen the Fair Trade Commission's monitoring of keiretsu companies as part of the SII agreement.

Miti's Mr Hatakeyama says once the government finds a bad keiretsu it will intervene by applying Japan's anti-monopoly law. "But it is quite unusual to find bad keiretsu." The US Justice Department, frustrated by Japanese inaction, is considering anti-trust suits against US subsidiaries of Japanese companies.

Yet even if competition policy is applied more rigorously, there is one barrier that trade negotiators can do little about – Japanese consumers' legendary preference for Japanese-made products. Mr Katsuhiko Nakayama, general manager of the foreign trade department at Tokyo's prestigious Mitsukoshi department store, summed up this attitude. "The most important barrier to imports is that there are few goods that we would want to import."

1 *Lawrence, R T, Efficient or Exclusionist? The import behaviour of Japanese corporate groups, Brookings Papers on Economic Activity, Summer 1991 (forthcoming).*
2 *Saxonhouse, G R, Comment, op. cit.*

Expansion abroad curtailed

JAPANESE foreign direct investment slowed in the 1990 fiscal year, after five years of rapid expansion. It was 16 per cent lower than in 1989 when measured in current dollars, but 366 per cent higher than in 1985.

Many Japanese companies have moved production out of Japan as the appreciation of the yen since 1985, and the growing labour shortage in Japan, have made exports of Japanese produced goods increasingly expensive. Rising trade barriers to Japanese exports have also increased their incentive to locate production within target markets.

The main attraction of Asia for Japanese companies is the abundant supply of cheap labour. "Low cost labour" was cited as a reason for 37.4 per cent of Japanese companies investing in Asean countries, compared to 1.1 per cent in the US and zero in the EC, according to a survey conducted by the Japanese government-owned Export-Import Bank. The survey, conducted in November 1990, covers 277 companies with more than three overseas affiliates.

"Development of a new market" was cited as a factor for 31.7 per cent of investors in Europe but for less than 20 per cent of investors in Asia.

These differences in motive for investment are reflected in the destination of the final products. In Europe, 96.1 per cent of sales of Japanese affiliated manufacturers were to the domestic European market, according to a survey of 3,331 companies with affiliates abroad conducted last year by the ministry of trade and industry. In the US, 93.1 per cent of sales were for the domestic market.

In Asia, 36.1 per cent of production was exported; and 15.8 per cent of total production was "reverse imports" – exports to Japan by Japanese subsidiaries located abroad. Only 4.5 per cent of US-produced goods and 1.7 per cent of European production were exported to Japan.

Last year's decline was concentrated in banking, insurance and real estate in the US as Japanese financial companies curtailed their expansion plans in the face of high interest rates and a weak stock market.

Japanese foreign direct investment in the US fell by 20 per cent in 1990 compared to 1989 and by 3.5 per cent in Europe when measured in current dollars. Direct investment in manufacturing fell by 5 per cent but manufacturing investment in Europe rose by 48.7 per cent on the previous year.

Lower levels of Japanese direct investment will continue up to 1993, according to the Export-Import Bank survey. Only 41 per cent of the 277 companies polled plan to increase their foreign direct investment, down from 84 per cent in the 1989 survey.

The recent trend in direct investment away from the US towards Europe and Asia will continue, the survey says. Asia is the location for 43.9 per cent of planned investment projects; 30 per cent in Europe, and 19.4 per cent in North America. Within Asia more than half of the planned investment will occur in Asean countries.

Within Europe the UK has been the most popular location for Japanese direct investment. UK received 48 per cent of total foreign direct investment in 1990, followed by the Netherlands with 19 per cent and France and Germany each with 8.8 per cent.

The UK's pre-eminence will also be challenged, according to the Ex-IM survey. Germany and the UK share 47 per cent of the total planned investment projects in the EC, with France in third place with 14 per cent.

Japanese companies remain reluctant to invest in eastern Europe. There are only 18 planned projects there, compared to 219 in the EC.

The rapid rise in Japanese investment in Europe has raised fears, particularly among French and Italian car manufacturers, that Japanese companies will squeeze out domestic producers. These fears have arisen even though the stock of Japanese foreign direct investment in Europe was just one quarter of US direct investment in 1990.

The Japanese government is willing to restrict the share of Japanese car exports in total European sales until 1999. But the EC also wants to include the output of Japanese affiliates based in Europe.

Mr Hatakeyama, vice-minister for international affairs at the ministry of trade and industry, believes that it will not be possible for the EC to restrict the flow of Japanese-produced goods in Europe once the single market is complete. "Germany and the Netherlands have no intention of putting barriers up at their borders," he said. "And if they put up barriers between France and Germany we will ask 'What is the definition of 1992?'"

Edward Balls

MR HISANORI ISOMURA portrayed himself as the governor that the cosmopolitan city of Tokyo richly deserved. Much travelled, fluent in French and author of a series of books titled A Touch of Sophistication, Mr Isomura performed dismally at the polls.

But the failure of the man dubbed "Mr International" cannot simply be blamed on an enduring parochialism. His defeat in the April election reflected some of the complexity of Japanese politics, with the frequent unholy alliances and the deals done among local branches that have influence on Japan's foreign policies.

The governorship remained in the hands of Mr Shunichi Suzuki, an 80-year-old who won the sympathy vote after losing the backing of the Liberal Democratic Party (LDP). Mr Suzuki lost that backing partly because some in the LDP thought him too old, but, more importantly, because party leaders wanted to improve relations at the national level with Kometto, or the Clean Government Party.

LDP leaders needed Komeito's parliamentary support to push through a Gulf War aid package, and Komeito, for its own factional reasons, preferred Mr Isomura to Governor Suzuki. Mr Isomura lost, the LDP got its package approved, and Japan belatedly responded to the international calls for more money, $9bn, and for a military presence in the Gulf, a convoy of minesweepers.

While Japanese politicians have been generally condemned for their slow response

Japanese farmers march in protest against plans to liberalise the rice market

Robert Thomson on the complexities of politics

Delicate balancing act for parties

The public opposed a Japanese military presence in the Gulf

to international crises, the Japanese public is much farther behind. The public generally opposed a Japanese military presence in the Gulf, and the approval rating of Mr Toshiki Kaifu, fell to a low of 40.7 per cent after an earlier peak of 51.7 per cent. He has since been forgiven for his perceived mistakes, and his rating was 47.1 per cent and rising at the end of June.

The difficulties in fashioning foreign policy are even more acute at the Social Democratic Party of Japan (SDPJ), the leading opposition party and formerly known as the Japan Socialist Party. Miss Takako Doi has just resigned as leader to take responsibility for the party's plunge in popularity, which followed an inability to present itself as an acceptable alternative to the LDP.

Miss Doi, whose personal charisma drew attention away from her party's deep-rooted factional disputes, was unable to reform unpopular policies that called for the dismantling of the Japanese military, gave scant recognition to South Korea and encouraged the authoritarian regime in Pyongyang, and demanded an end to a security treaty with the US.

One of Miss Doi's allies in the party, Mr Shigeru Ito, chairman of the policy board, said that she had recognised her weakness in overseeing reforms, which were opposed by the left wing and supported by the reformist right wing. Whereas the LDP's problems with foreign policy formation come from a fear of alienating ordinary voters, the SDPJ's policies had even become irrelevant to most of its own members, apart from an influential Marxist minority.

When Miss Doi announced her resignation, she suggested that an important reform package had been completed and she could leave with a clear conscience. But the new policies, more designed for the party than the electorate, have been made ridiculously vague

Takako Doi: resigned as leader of SDPJ

in an attempt to keep all factions happy.

Instead of opposing the existence of the Japanese military, the party now "directly views" the military – it would be a mistake, a party official explained, to say that the policy had been changed, but it would also be a mistake to say that it had not been changed.

Japanese voters, parochial as they may be, have already shown their impatience with the SDPJ, and until the party can formulate clearer policies, both foreign and domestic, the LDP will continue to control the country.

Mr Ketsuya Muraguchi, head of the LDP's policy planning committee, said that, as in any country, parliamentarians have to maintain a balance between their domestic and foreign responsibilities: "There are still poor people in Japan, and some voters ask why we should provide foreign aid when we have poverty at home."

Trade policy is a particular problem for Japanese politicians, who are often dependent on industries, such as construction, or lobby groups, such as the rice lobby, for votes and funds. Japan's reluctance to open its rice market is a good example of the awkward compromises that result from the conflicting interests.

Japanese government officials decided late last year that they would allow rice imports to a level of between 3 per cent and 5 per cent of domestic consumption, but local political considerations have made it impossible for them to announce that decision.

Tokyo has been under pressure from Washington to open the market as soon as possible to stimulate the stalled debate on agricultural trade in the Uruguay Round of multilateral negotiations. But LDP politicians have decided that they will not announce their decision until the EC and US reached agreement on agricultural trade, and international pressure then becomes focused on Japan – an opening under these circumstances will be easier to sell to the farm lobby.

Another obstacle to a better balanced foreign policy is the political need to give all senior LDP members a turn as a minister. This enhances their prestige among local voters, but also means that ministers do not have enough time or expertise to implement change. They are also wary of ambitious policy changes, fearing that something could go wrong and that their stay in office would be characterised by a blunder.

Conscious of the continuity problem, the LDP has allowed Mr Taro Nakayama to remain as foreign minister, in spite of a ministerial reshuffle last December. Mr Nakayama has not been noted for foreign policy innovation, but his enduring presence has allowed the gradual cultivation and implementation of new policies on Vietnam, the Cambodian conflict, and North Korea.

Japanese bureaucrats tend to want most of the credit for developing policies and are often contemptuous of their short-stay ministers. But the bureaucrats recognise that policies will have a far better chance of implementation if their minister is a factional leader or if the prime minister has a personal interest in foreign policy.

Policy changes are difficult in the face of public opposition

While conceding the importance of bureaucrats' influence, Mr Muraguchi said that the government has a responsibility to educate the electorate about Japan's growing international role. He said that policy changes, whether they be devised by bureaucrats or politicians, are difficult to introduce in the face of public opposition.

"It can be said that the general public does not have a high level of idealism on international issues. It would be very difficult for a candidate to win election just on the basis of his skills in international policy-making. Before you do anything else, you have to meet the needs of the local people." Mr Muraguchi said.

Impact of internationalisation on a provincial city

New export hub

MR RYUTARO OMORI, the president of Niigata Chuo Bank, has high ambitions. He foresees the day when Niigata, a port on the Japan Sea, will be the gateway to a new regional economy comprising areas of northern China, North Korea and, most importantly, the far eastern region of the Soviet Union.

Mr Omori says: "If our relationship with the United States becomes more tense and the European Community becomes protectionist then the most important area for growth will be in south-east Asia and the Soviet Union."

For the city, such a role as one of the hubs of a new trading area would be a return to a role it played prior to the Second World War. With the onset of the Cold War, Niigata found itself on its Asia frontier, facing the military might of the Peoples' Republic of China and the Soviet Union.

The regions and ports on the Pacific coast were the main beneficiaries of Japan's post-war economic growth. Niigata, by contrast, was relatively underdeveloped. For decades its economic development has been tied to that of the Tokyo region. The Niigata economy internationalised through the improvement of its internal transport links with the exporters on the other side of Japan. Its textile and machinery makers have won access to international markets, often as sub-contractors to large companies based on the Pacific coast.

Business leaders and politicians hope that dependence on the Pacific coast will be significantly reduced in the next few years as Niigata explores an independent international role in the Japan Sea region and the USSR in particular.

Mr Omori has created a Y1.5bn investment fund for projects in the USSR, the first of its kind in Japan.

Japanese companies will be attracted by raw materials and cheap labour as the domestic labour shortage begins to bite. The Siberians are often happier to turn to Japan for capital than Moscow.

For one thing it is closer. It takes just 90 minutes to fly to Khabarovsk, the Siberian city with which Niigata is twinned, compared with nine hours from Khabarovsk to Moscow.

Mr Kiyoshi Kaneko, the governor of Niigata prefecture, talks of a growing number of exchanges with other regional governments in the Japan Sea area, independent of central government, to promote trade and co-operation between their regions.

Mr Yoshiaki Hasegawa, Niigata's mayor, says the city should have a specific role in promoting trade via Siberia. He says: "It takes about 20 days to ship products from Japan to northern Europe via Niigata to Siberia, compared with about 36 days via the Pacific Coast ports. Niigata could become an alternative to those ports as an export outlet for Japanese companies."

Niigata's ambitions to become the Japanese gateway to the far eastern Soviet Union is indicative of its special position. Elsewhere in Japan business executives say the end of the Cold War has had little impact upon them; in Niigata it is one of the main factors spurring internationalisation.

However, Niigata's international ambitions are also indicative of the growing diversity and complexity of Japan's international role.

Mr Kaneko, the governor, says the in spite of the growing importance of Japan's relations with Asian economies, its relationship with the United States should still be the linchpin of its international policy.

Yet, elsewhere in Niigata there are signs of, at the very least, a growing lack of deference towards the US. Professor Hadetoshi Taga, of the Niigata University law department, recently polled 300 of his students on which countries would be most important to Japan in the next decade and beyond.

About 70 per cent said the US would remain Japan's most important partner for the next 10 years but after that the USSR, China and South Korea would together become more important than the US.

The main risk is that there seems perilously little to guide Japan as it develops a more independent and diverse world role.

The one certainty is a deep-rooted consensus that Japan's military role should be strictly limited to at most participation in UN peace-keeping operations: Mr Seiya Imai, managing director of the Niigata Nippo, the largest local newspaper says: "Japan does not fight, that is a promise we make to other countries. That is not just a policy but a popular common sense."

Mr Hasegawa concurs: "If Japan were to take on an international military role it would threaten other countries. We must work with other countries to make sure that Japan remains a tamed tiger."

Beyond that consensus that there should be very strict limits to Japan's military role, few other international issues promote much controversy. It is as if for most Niigata inhabitants, abroad is just a set of markets to sell into or a list of brand names to be bought. There is little social consensus about what sort of international power Japan should become and what it should stand for.

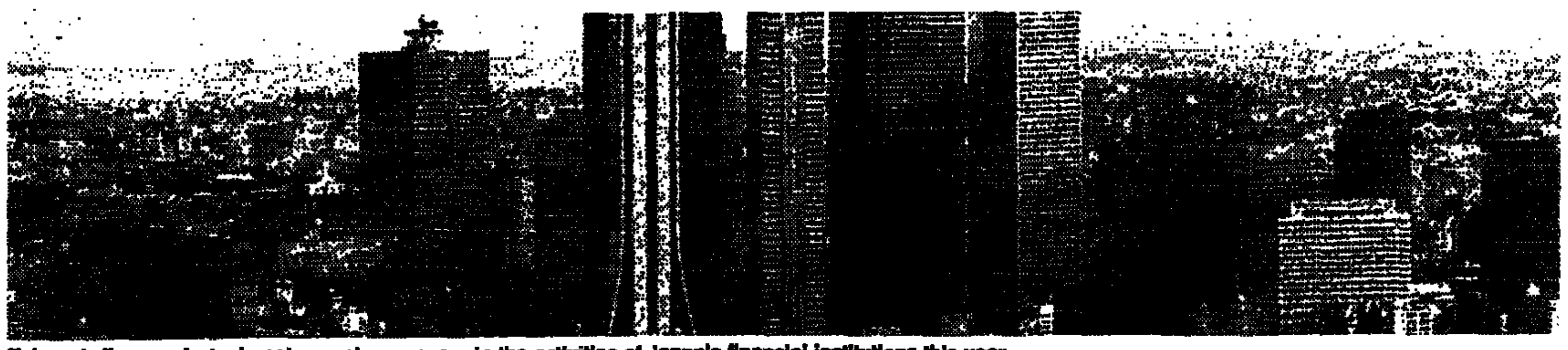
Senior editorial staff at the Niigata Nippo admit there is little popular interest in issues such as African poverty which have excited such interest in Europe. The government's policy to become the world's largest aid donor has little popular resonance.

Although the environment is becoming more of a popular issue among consumers there is little sense in Niigata of Japan playing a leading role in combating threats to the world's ecology.

Professor Taga admits to deep pessimism about whether Japan will be able to develop a world role. He says: "We do not have the international sensibility needed to play a role which matches Japan's economic power. There is a complete lack of imagination about how Japan should become a superpower and what sort of superpower it should become."

He continues: "Japan is the only country which can finance the US budget deficit and help to pay for the Gulf War and also have the resources to modernise the USSR economy. It has that much economic power relative to the old superpowers and yet no-one knows what Japan stands for beyond commerce, trade and profit. It remains a complete mystery."

Charles Leadbeater



Tokyo skyline: analysts do not expect a recovery in the activities of Japan's financial institutions this year

After a difficult year for financial institutions, **Edward Balls** traces their progress

Slowed down to a walking pace

HIGH interest rates, the collapse of the Tokyo stock market, and the exposure of financial scandals have sapped the confidence of Japan's banks and securities houses.

Just two years ago Japan's financial institutions appeared destined to dominate world finance, following four years of rapid international expansion.

This growth has since slowed significantly. The continuing weakness in the Tokyo stock market and the banks' difficulties meeting internationally agreed capital adequacy ratios make a quick return to aggressive expansion unlikely.

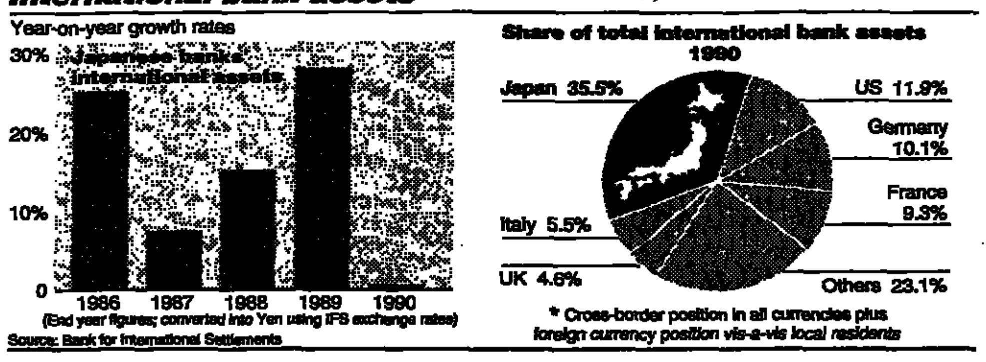
Mr Shijuro Ogata, ex-deputy governor of the Japan Development Bank and now a director of Barclays Bank, does not expect a recovery in the activity of Japan's financial institutions this year.

"If banks try to raise new capital the stock market will not bear it," he said. "Other countries have stop-go; we have run-walk; and now we are walking."

The second half of the 1980s saw dramatic growth of international assets for Japanese banks. On the back of strong growth of domestic profits, a stock market boom, low interest rates and a strengthening currency, banks increased the dollar value of their international assets by 200 per cent between 1985 and 1990.

Market conditions changed dramatically in 1990. High interest rates triggered a collapse in the Tokyo stock market and the drying up of the ready source of cheap capital. Banks were unable to raise new capital while the crash reduced the value of the unrealised capital gains on their equity holding.

International bank assets*



Source: Bank for International Settlements

* Cross-border position in all currencies plus *foreign currency position vis-a-vis local residents*

Banks continue to face serious problems meeting the minimum capital adequacy ratios set in 1988 by the Basle committee on banking supervision of the Bank of International Settlements.

The Basle committee required a minimum capital-asset ratio of 7.25 per cent at the end of 1990, rising to 8 per cent by 1992. Japanese banks had been operating in recent years with capital-asset ratios of around half the BIS minimum. The crash knocked more than 50 per cent off Japanese banks' unrealised gains on their equity holdings, 45 per cent of which they are allowed to count as official capital to meet the BIS standards.

Last September all the banks were below the minimum capital-asset ratio, having seen an estimated fall of 1½ to two percentage points in their ratios in the previous six months in spite of the appreciation of the yen which reduced the value of their dollar assets.

The banks have since raised new capital by issuing subordinated debt and reined back their asset growth. The growth of Japanese banks' international assets slowed from \$202bn in 1989 to \$153bn in 1990. Measured in yen their assets rose by just 1 per cent, compared to 27.7 per cent the previous year.

Almost all Japan's leading banks had reached the required standard by March 1991, though they have been struggling again recently because of the Tokyo stock market's weakness.

The banks were not the only Japanese financial institutions to reduce their international activities in 1990. The fall in US interest rates and rise in Japanese rates also contributed to a \$73bn reduction in Japanese portfolio outflows to *just 39.7bn in 1990, with Japanese* investors becoming net sellers of US securities.

The recent BIS annual report *suggests the diversification* of Japanese financial institutions into foreign securities may have ended.

Life insurance companies' foreign securities holdings represented 30 per cent of their total securities portfolio at the end of 1990, down from almost 34 per cent at the end of 1989.

Mr Shinichiro Kurokawa, fixed income investment manager at the Dai-ichi Mutual Life Insurance Company, confirmed that Japanese investors have become more concerned about the exchange risk associated with a weakening dollar because the share of dollar securities in their overall portfolios has risen.

Japanese banks remain conservative about their plans. Mr Yoh Kurosawa, president of the Industrial Bank of Japan, does not expect the international activities of Japanese banks to recover in 1991.

"We will not be able to do a rights issue this year" he said, "so we will have to keep to our 'no-increase-in-loan-assets' policy, *regardless of events inside* or outside Japan." He does expect asset growth in 1991 to top 2 per cent.

Mr Kurosawa also accepts that the exposure of Japanese banks to troubled real estate markets in the US and Japan has made them more cautious. But he pointed out that Japanese banks are much less exposed to the real estate market than US banks, and have a much lower proportion of non-performing loans. "Japanese banks are not full of lemons," *he added.*

Mr Alan Brown, director of Barclays Bank in Japan, believes that it will not be long before Japanese banks resume lending abroad. "If Japanese interest rates fall and the stock market picks up, Japanese banks will regain their appetite for overseas lending."

Yet the days of rapid asset growth are past. Mr Tatsuo Yoshida, managing director of the Industrial Bank of Japan, believes that Japanese banks will be more profit-conscious and will stress the quality of their asset portfolio rather than *its growth.*

This is partly because he believes the BIS rules will continue to be a constraint, but also because Japanese banks *now know they cannot rely on* a ready supply of cheap domestic capital.

The Japanese banks have shifted their sights away from ordinary lending to other fee-based activities such as mergers and acquisitions. Mr Yoshida says that the Industrial Bank of Japan will continue to expand its participation in securities activities overseas, such as Eurobond underwriting and selling and futures trading, to gain experience in advance of the expected liberalisation of the Japanese securities industry.

Mr Bernard Grigsby, manag*ing director of Barclays de* Zoete Wedd in Japan, believes that Japanese banks should be more conservative in real estate lending but expects their memories will be shorter than they ought to be. "Once foreign economies have picked up, real estate prices will look cheap again through rosier spectacles," he said.

Robert Thomson examines bureaucratic conflict

Divided loyalties

FROM the outside, the Japanese bureaucracy appears to be a mass of devoted officers, mostly white-shirted men, working in unison, late into the night, for the greater good of Japan. They are seen as self-sacrificing, perhaps conspiratorial, and the ultimate arbiters of policy.

Events of the past year have highlighted the divisions in the Japanese bureaucracy, particularly over the balancing of domestic and international responsibilities, and suggest that politicians have begun to exercise more influence on for*eign policy, often to the annoy*ance of the bureaucratic specialists.

Conflict has been particu*larly acute between the finance* ministry and foreign ministry, and between the ministry of international trade and industry (Miti), and the agriculture ministry in the debate over a rice market liberalisation. The finance and foreign ministries *tend to differ over Japan's abil*ity to fund what the foreign ministry identifies as worthy international causes.

When the US was seeking financial assistance during the Gulf war, the finance ministry initially said that \$1bn was the *most that could be offered.* Later, delays in approval for what was ultimately another \$9bn in war aid contributed to friction between Tokyo and Washington, and led to Japan not receiving due credit for what was a generous contribution.

Both the foreign and finance ministries have been annoyed by public statements made during foreign visits by senior Japanese politicians, who, according to the bureaucrats, acted without proper consultation with the responsible ministries.

Mr Toshiki Kaifu, the prime *minister*, promised a \$500m loan to Poland during a visit to eastern Europe last year. The finance ministry blocked *approval for the loan to regis*ter its displeasure with a US-sponsored debt forgiveness plan for Poland. The ministry has maintained that if debt is forgiven, Japan will find it "extremely difficult" to provide new loans to the country involved.

And Mr Shin Kanemaru, a heavyweight in the ruling Liberal Democratic Party (LDP), said that Japan would compensate North Korea for its isolation of the past four decades – Mr Kanemaru gave in to North Korean requests during a visit to Pyongyang – but the foreign ministry has since said that his promise was not binding because it was made by a party representative not by a government official.

There are disputes over rice policy between Miti and the agriculture ministry, and within the agriculture ministry itself. Miti has generally argued for a market liberalisa*tion, as it says that Japan's* trading partners would see it as an important symbolic gesture. The agriculture ministry, *directly responsible for rice* policy, is determined to represent the interests of Japanese farmers, and has consistently opposed rice reform.

But the agriculture ministry has various factions, including an "international" faction, *which has suggested that a* more moderate line be pursued and that preparations should begin for an inevitable liberalisation.

However, no member of the LDP wants to be remembered as having been the agriculture *minister responsible* for opening the rice market, as Japanese farmers form a powerful voting bloc.

Questions over whether Japanese bureaucrats are acting in the public interest or in the interests of the industries they are supposed to oversee have become pointed since the securities industry scandals were revealed in June. Leading brokerages admitted to compensating favoured clients and to lending funds to a gangster group.

The finance ministry is responsible for the securities industry, but the ministry and the minister, Mr Ryutaro Hashimoto, have been criticised for lax control of the securities industry and for alleg*edly having been aware that* the compensation payments were common.

The ministry provides an interesting example of conflicting interests. There is a division responsible for banks and another responsible for securities companies. In recommending financial reforms, say, on banks' entry into the securities business, advisory councils established by the securities division routinely oppose giving banks more access, while the banking division enthusiastically supports the banks' cause.

A common result of such disputes is an uneasy compromise between the two industries, and little consideration of the public interest or of the interests of small investors or depositors. Such outcomes have also prompted calls for an examination of the influence of former senior bureaucrats in the ministry who have gone on to executive positions at financial companies.

Various personal relationships play a role in daily bureaucratic business. The National Personnel Authority, which oversees the bureaucracy and arranges training programmes, said that university friendships can often extend into ministry life. That is not surprising given, for *example, that about* 80 per cent of the finance ministry's annual fast-track intake have come from Tokyo University, *and about three-quarters of* those are from the law faculty.

NPA officials run training courses for senior bureaucrats from different ministries, who are said to strike up friendships useful in solving problems involving several ministries. The NPA argues that the Japanese system is not as rigid as generally portrayed, and that there are mid-career promotion opportunities for talented bureaucrats.

Mr Ketsuya Muraguchi, head of the LDP's policy planning committee, said that politicians appear to be exercising more influence on policy because of the parliamentary "tribe" network. Politicians frequently become members of a "transport tribe" or "construction tribe", which will focus on issues in those sectors.

"Politicians will always have *to rely on bureaucrats for* details. The party itself doesn't have much of this sort of information. But often the bureaucrats are handling the same issue for only two or three years, and the politicians have more experience. The balance of power is shifting in the politicians' favour," Mr Muraguchi said.

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Charles Leadbeater looks into the future of high-tech products

Age of designers arrives

JAPANESE designers are preparing for their moment. For the past two decades Japanese companies have built up a reputation for making technologically sophisticated products at low cost and high quality.

But the style and design of most of the products whether cars, cameras, watches or televisions was largely derived from and dependent upon the west.

Although leading companies have had design departments for decades – Toyota established its design department in 1948 and Matsushita, the electronics company, followed in 1951 – for years designers merely clothed products dreamed up by engineers.

Japanese products have flooded on to our roads and into our living rooms but without any obvious transmission of Japanese style or values. Whereas Italian products are associated with classic style or US products in the post-war era were emblematic of the American dream, Japanese products seem rather bland.

All that could be about to change. A set of developments means Japanese design is coming into its own and the Japanese contribution to design, as opposed to mere styling, is becoming more obvious as it becomes more pervasive and powerful.

A good example of the trends at work is the development of design at Seiko, the world's leading watch manufacturer. Seiko watches used to compete on the superior accuracy of the quartz technology the company developed and industrialised.

Now accuracy is no long a competitive edge as other manufacturers have taken up the quartz technology.

To retain its leadership in the industry Seiko has to rely upon design to exploit its technology and to create greater choice and diversity, according to Mr Tsutomu Mitome, general manager of Seiko's marketing department.

So technology now delivers not just accuracy but the ability to compress into a watch a wide variety of functions which can be tailored to particular markets such as sports watches or watches for international executives. Seiko launches about 2,000 new models a year.

A good example of the trends at work is the development of design at Seiko, the world's leading watch maker

Mr Mitome says: "In a sense we are in the fashion business as much as the watch business with a background in precision engineering."

This theme of the commercialisation of technology to create more sophisticated, compressed products is at the heart of the Japanese values which are transmitted through its products.

There are several strands to this theme.

■ The Japanese are constantly seeking slimmer, more compact, lighter products. This has brought technologies such as video cameras within the financial and technical reach of a mass market.

■ There is little waste, few frills and no extravagance in Japanese products; everything has a purpose. Designers at companies such as Toyota and Matsushita stress the importance of designing mass products, with a commercial application. The division between high and low culture in design in Europe does not apply in Japan.

■ The notion of consumption is different. Mr Masatoshi Naito, director of design at Matsushita, says: "In the West there is an idea of consumer durables, lasting a long time. Here it is part of our culture to accept constant change, nothing is permanent."

Toyota MR2: a breakthrough for Japanese designers

■ The Japanese view is that consumers are involved in a constant cycle of consumption of one generation of products after another. Japanese designers contrast this with a western view of products as "lasting monuments".

■ This acceptance that products are fleeting and constantly in danger of being overtaken means that designers in Japan focus on the use of the product rather than its on image, according to Mr Kenji Ekuan, president of GK Industrial Design, who is widely regarded as the father of Japanese industrial design.

Mr Ekuan says: "In the west you have hero designers who make their name from a style or look. Here we concentrate on making products which people want to use. We start from what people want and work from that. In the west you have designers as crusaders who want to use their designs to impress values upon people."

■ Since the turn of the century Japan has been open to western influences which are now resurfacing in products. Mr Ekuan says: "We are a more cosmopolitan culture than, for instance, Germany, so many of the values in our products comes from our earlier absorption of foreign influences."

Japanese companies are consciously attempting to internationalise their design activities. Mr Kazuo Morohoshi, general manager of Toyota's Tokyo design centre, talks of growing collaboration with sister centres in Brussels and California which will contribute to designs for products made for any market in the world.

■ Japanese designers talk of starting to developing a distinctive styling. Mr Naito says Matsushita will this autumn launch its first corporate design strategy intended to provide more coherence and commonality in the company's products.

The model for that strategy will be Matsushita's best-selling television in Japan, which uses a "noiseless design". It is simple, flat and black with the speakers ingeniously disguised beneath plastic panels specially developed for Matsushita. There are no knobs, lights or switches, so the watcher can just concentrate on the screen.

This simple, noiseless, uncluttered look will be the style for a range of Matsushita products.

Mr Naito says: "We are ready to start showing the world our original designs, but I doubt many exist as such yet."

■ Any developments in styling will probably be overshadowed, especially in electronics, by technological developments. At the first stage these developments will enhance existing products we commonly use in our homes.

There is little waste, few frills and no extravagance in products; everything has a purpose

High-definition television will allow us to watch higher quality television pictures. Digital technology will allow us to listen to more sharply defined music. Microwave technology will allow us to walk around the house listening to music through headphones which are not connected by wire to any tape deck.

All these products are designed so that we will gradually use the space in our homes differently.

But in time two other developments will come more to the fore. First, the Japanese are increasingly applying technology to people rather than places.

So soon not just our living-rooms but our very persons will be equipped with technology – lap top computers, mobile telephones, sophisticated watches, electronics diaries, mobile compact disc players. Technology is becoming mobile.

Second, the Japanese have succeeded in consumer electronics by offering constantly expanding choice about what we listen to and watch and when we do it. Much of our sensory perception of the world, through sight and hearing, is mediated by Japanese electronic technology. The next great step down this road is the electronics generation of virtual realities, entire worlds which are generated by a mixture of human choice, computer graphics and computer memory.

Cross-border appetite dampened by bad deals and a bad press

Taste for acquisition wanes

FINANCIAL turmoil in Tokyo over the past year has taken a toll on Japanese cross-border mergers and acquisitions, but experts in Tokyo insist the long-term outlook is bullish with corporations adjusting to the emerging global marketplace.

Half a decade ago, only a few Japanese executives were familiar with the M&A business. Even fewer saw any incentive to join in as long as Japanese industry prospered from burgeoning exports and an undervalued yen.

The Plaza Accord of 1985 challenged that strategy by sparking a sharp appreciation of the yen. Executives across Japan saw the competitiveness of factories and workers eroded. And, as Japan's trade surplus soared, political pressure also mounted for firms to manufacture in their foreign markets.

The sudden changes prompted many Japanese corporations to look abroad. In 1989, the value of Japanese acquisitions in the US and Europe reached $16.1bn before retreating slightly to $15.4bn last year, according to Long-Term Credit Bank of Japan. "Japan had become the Riyadh of the 1980s where anyone selling anything came through Tokyo," says the head of a foreign M&A department in Tokyo of the fast and loose environment. "For many M&A advisers the client was the deal. They were dealing as brokers. But in Japan if I hire you it would never cross my mind that you don't have my best interest in mind."

Bad deals, bad press and bad markets have all combined to dampen Japan's cross-border M&A appetite for the time being. Nevertheless, the market will be "booming" later in the decade, insists Mr Hideo Karino, general manager of corporate development services at Nikko Securities Co.

"The change in economic structure has had a very big impact on the strategy of Japanese corporations. That is, the basic conditions which bring profit to corporate accounts have been changing drastically," he says. "We say this (corporate restructuring) is a survival game not only in the Japanese market but also in the worldwide market."

Mr Karino also says the publicity accorded M&A has not been all bad. Many Japanese companies are becoming familiar with it as a viable growth strategy. Europe is certain to gain prominence as a target, although the US is expected to retain the top spot – in 1990, Japanese investors pumped more than three times as much into US acquisitions as into European ones.

Ironically, the very elements of corporate culture Japan shares with Europe are presenting the greatest obstacles on the Continent: reluctance to sell to outsiders, sometimes lax financial disclosure and, in some countries, tight links between banks and corporations.

"In Continental Europe you have to have an inside track to do a deal," says Kiyotaka Fujii, vice-president for mergers and acquisitions at CS First Boston (Japan) Ltd. In contrast, Japan's move into Continental M&A is likely to involve more joint ventures, small buy-outs and minority stakes than in the US, and require a painstaking cultivation by Japanese investors.

The financial services, chemical, computer, health and personal care and pharmaceutical sectors are pushing into the EC, but they, too, are sensitive to the politics of investment

"It's not a question of due diligence and 'Do I know the books?'", says Mr Fujii of the Japanese approach to M&A. "It's 'Do I know the mangers?' 'Do I know the company?' That's what minority shareholding allows."

From the European perspective, Japan's M&A offensive may seem spread across a broad industrial front, but the activity is likely to be uneven. The common objective will be to establish local production, distribution or access to new technology, and with as little political controversy as possible.

Investment by Japanese car makers is already controversial on the Continent, and a hostile acquisition is unthinkable for political reasons. The financial services, chemical, computer, health and personal care and pharmaceutical sectors are pushing into the EC market, but they, too, are sensitive to the politics of investment.

Meanwhile, the list of players lining up to do the deals is growing even as the market takes a breather. It already includes leading foreign and domestic banks and securities houses, accounting firms, consultants, M&A boutiques and trading houses.

The newly-established locals are seeking to hone their skills and capitalise on client connections, but foreign M&A leaders still have the edge in experience and knowledge of target markets.

Most Japanese financial institutions realise the going will be tough but see M&A as the way to reel in other lucrative business.

"It helps our underwriting business," says Nikko's Mr Karino. For Japanese banks, M&A can also lead to profitable lending and other services. And at trading companies it is a way to repackage already formidable overseas market information and give a boost to sister firms.

Mitsubishi Corp, the giant trading house, entered the business after watching Nikko and its US partner, the Blackstone Group, arrange its Aristech Chemical buy-out. "My question is whether Mitsubishi will arrange profitable M&A for the Mitsui group. There must be some limit," Mr Karino says. Some firms have tried to combine the best of both worlds by forging Japanese-foreign alliances, including Nikko and the Blackstone Group and Nomura Wasserstein Perella Co. "I don't think the division of labour works," says CS First Boston's Mr Fujii.

Clients want to sit down with the same people who bashed out details face-to-face with a target firm's leaders, not couriers, he explains.

The recent troubles have also prompted leading foreign institutions, especially American ones, to cut back Tokyo M&A operations. Some observers see the moves as a sign the Japanese market is maturing.

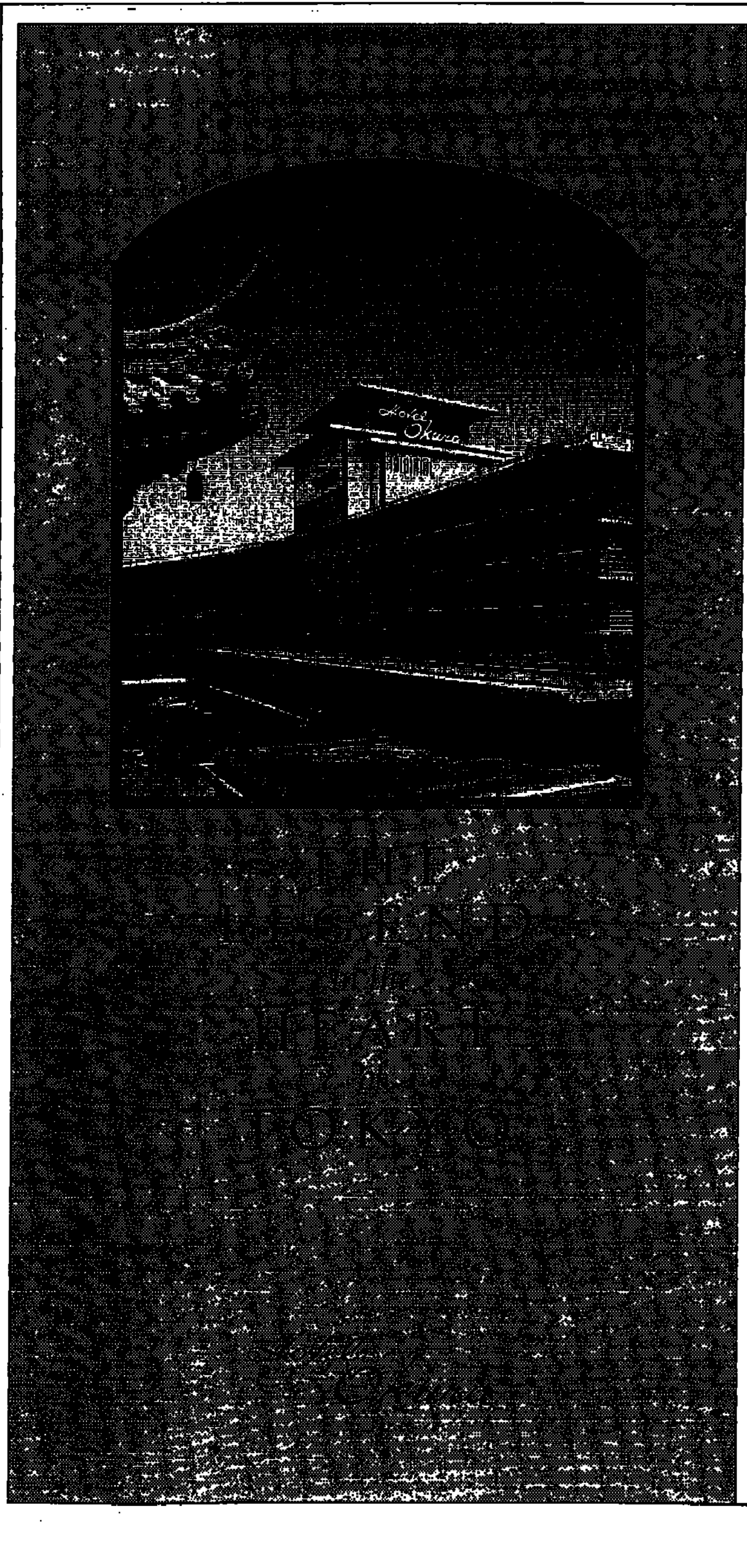
"This US shotgun approach of 'I did 100 deals last year so hire me' does not work here. Problem-solving is the only way to go," says Mr Fujii.

Mr Joseph Sabatini, managing director and head of the financial advisory department at J P Morgan in Tokyo, notes that Japanese buyers have also come away from the first round of M&A with a more sober perspective: "The first time people don't realise the effort, energy and time needed to successfully integrate a foreign acquisition. You're now going to have a much more realistic approach," he says.

On the other hand, industry officials speak of growing interest in M&A in Japan among foreign firms – Asian as well as western.

Nikko said that it is advising eight such companies, with emphasis on joint ventures, minority stakes and business development. For reasons of cost and culture, nobody expects the Japanese market to offer the sort of acquisiton opportunities Japanese companies enjoy abroad.

Neil Weinberg



Emiko Terazono investigates the movie industry

Film makers fail screen test

AN unlikely alliance between Time Warner, the US media and entertainment company, and a Japanese provincial supermarket chain, Nichii, to develop Japan's first multi-screen cinema complexes, has posed a challenge to the few companies controlling the Japanese movie industry.

The link-up has caused apprehension in the film industry. Time Warner says that the alliance will be good for the movie industry because it will give viewers more of a choice. Mr Robert Daly, chairman of Warner Bros, adds that the deal would simply "make going to the movies even more fun for Japanese people".

Most Japanese cinemas are dirty and uncomfortable. Japanese films, also have a serious problem. While foreigners often have an image of Japanese films as artistic, the average movie shown in Tokyo is badly made, poorly acted and is either an unfunny comedy or an overdone melodrama.

The average movie is badly made, poorly acted and is either an unfunny comedy or an overdone melodrama

Often, mediocre films are backed by large advertising campaigns, with stickers on taxis and messages on T-shirts. The poor quality "blockbusters" only serve to highlight the sponsoring company.

The number of people who went to the cinemas last year fell 85 per cent from the peak in 1960 to 143m in line with the 75 per cent decrease in movie theatres. Japanese films shown in theatres last year plummeted to 83 from 547 in 1960, while foreign films have risen from to 485 from 216.

The depressed state of the Japanese movie industry is blamed on various factors, but the distribution system seems to bear most of the blame. Three big distributors, Shochiku, Toei and Toho, maintain a firm grip on the industry, controlling 65 per cent of the total 1,840 cinemas in Japan.

Film makers have to please the distributors, and while this can discourage and distract aspiring young film makers, without the backing of a distributor, they would not have a chance to show their work.

"It doesn't matter if a movie is good or bad. The distributors want to show movies which use popular screenwriters, directors and actors," says Kazuo Miyabe, a film student.

Furthermore, film making is highly risky. Of the total film revenue, the theatres will take 50 per cent. The distributor will then claim 20 per cent for promotion, and advertising companies will take up to half of what is left. As a result, the production company is left with less than 20 per cent of the total revenue.

A risk-reducing measure that most distributors favour, is to pre-sell tickets to employees of the financing companies. This popular strategy has helped revenues rise to Y171.9bn last year, making Japan the second largest film maker after US, in spite of the sharp fall in the number of people who went to the theatres.

Pre-selling tickets is unpopular among some film makers because it does not encourage good productions. "If 1m tickets are pre-sold, the screen might just as well be blank," says one producer.

Distributors are also criticised for turning to real estate for revenues. Instead of worrying about the quality of the movies, they have become property dealers, turning theatres into apartments and shopping complexes. Of the big three distributors, only Shochiku relies on movie production and distribution for half its revenue.

Originally, the big studios of the distribution companies served as a place of apprenticeship for technicians and directors. But cutbacks on film production by the companies have discouraged new talent from the Japanese film industry.

Zipang, a Y600m samurai spoof, released last year, was a box office flop which should not have been shown at all. But leading corporations such as Kanematsu, a trading company, had agreed to back the project using a new Japanese director, with a name overseas. Mr Yudai Yamashita, the film's co-producer, explains: "The movie failed because it was badly made. The main problem was the actual script and directing."

There is also an overkill problem for the industry, as most actors and actresses in movies are television personalities. The viewer is given little incentive to pay and see the same people playing the same roles.

The government, which realised that something should be done to revitalise the industry, last year granted Y25m to assist directors. But that is far from enough, says Ms Etsuko Takano, the manager of Iwanami Hall, a leading arthouse cinema in Tokyo. "Ideally, the government should try and replace what the studios had originally been doing. Japanese companies should also be willing to spend on Japanese culture instead of buying America."

Cutbacks on film production have discouraged new talent from the Japanese industry

The distributors have mixed attitudes towards the future of the Japanese film. Shochiku will try to replace national screening of a few big films with fewer cinemas showing minor films. Toei says that they are moving out of films targeting teenagers in favour of a more adult audience.

Will the battered film industry ever recover? Mr Yamashita says that it may take a long time. "Film-making is a co-operative venture. Things just cannot improve overnight."

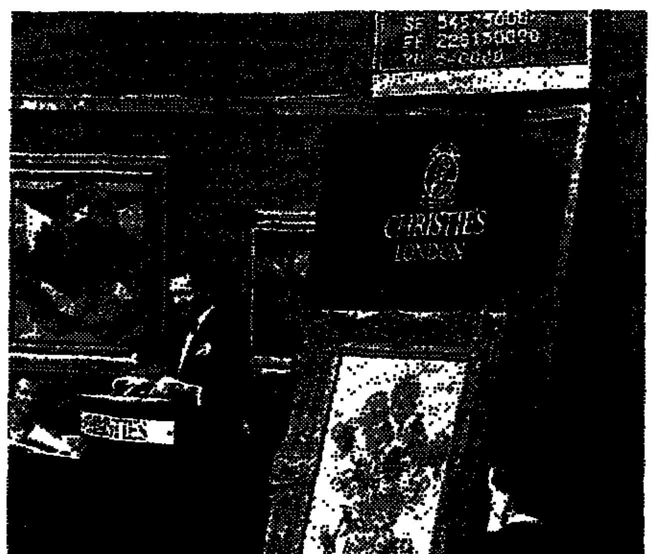
Ms Takano adds that in the 1950s, Japanese movies were admired abroad because of the originality and because they had some message to convey. "They were made to be shown to an audience, but that's not true any more."

Japan has temporarily abandoned its obsession with western art

Rogue elephants of market

THE Japanese have been the rogue elephants of the international art market in recent years, forcing up prices in the key sector of Impressionist and 20th century art and then exacerbating the recession by withdrawing suddenly to the sidelines in the past year.

Although Japanese collectors, often sheltering behind private and corporate museums, had long shown an interest in certain western artists, notably colourful Impressionists such as Renoir and Monet and lesser lights such as Marie Laurencin and Chagall, their arrival as an important force can be dated to April 1987 when the Yasuda Insurance company paid £24.7m at Christie's in London for a version of Van Gogh's celebrated painting, Sunflowers.



In 1987, Yasuda Insurance paid £24.7m for a version of Van Gogh's Sunflowers (left). A section from Van Gogh's portrait of his physician Dr Gachet sold for $82.5m.

For the next three years a few Japanese dealers were the main buyers at all the important sales of Impressionist art. They also started to show an interest in contemporary art, with Shigeki Kamayama, a dealer trading as Mountain Tortoise, paying $20.7m, for "Interchange" by Willem de Kooning, a record for a work by a living artist. This Japanese involvement reached a peak in May 1990 when within two days at New York Ryoei Saitu, a paper magnate, paid $82.5m for a portrait by Van Gogh of his physician Dr Gachet and $78.1m for a lively Renoir café scene.

But within six months the over-inflated market for Impressionist and modern art had collapsed. Already some of the Japanese dealers were finding it hard to sell on their pictures to domestic clients and the fall in values destroyed confidence.

To make matters worse scandals surfaced over the art buying activities of the Itoman Corporation and the Mitsubishi Corporation. There are investigations into reports that some Japanese companies attached inflated prices to the pictures they purchased in order to claim excessive tax rebates or to raise loans. At Christie's big Impressionist sale in London in June there was not one Japanese bidder in the rooms.

But the leading western auction houses, Sotheby's and Christie's, are still taking a close interest in the Japanese market. They are finding it hard to get behind the protective local dealers to the genuine collectors, but are experimenting with selective auctions in Tokyo. Sotheby's held a successful sale of Japanese prints there this year, noticing that while western collectors went for rarity Japanese buyers were after bright colours and good condition.

The Japanese may have temporarily abandoned their obsession with post-1870 western art, and, with very few exceptions, have never shown any interest in Old Master pictures, or other western art sectors such as silver, furniture, or manuscripts, but they are starting to buy back their own artistic heritage.

At first, Japanese collectors concentrated on Chinese works of art; more recently underpriced, and too long overlooked, Japanese ceramics have been returning to their home land. At Christie's in June a pair of Kakiemon vases, made around 1700 for Hampton Court Palace in London, went back to Japan for £550,000, easily a record price for Japanese ceramics. At the oriental auctions and exhibitions in London this summer Chinese bronzes, and Japanese netsuke and lacquer were returning east in considerable numbers.

Antony Thorncroft

Total magazine sales rise

New titles for more readers

MAGAZINE titles are one of the more interesting indicators of change in Japan. The labour shortage has been matched by a spate of employment magazines, while the growing affluence of young women has prompted several titles intended to help them dispose of that wealth, and an increase in self-questioning by middle-aged Japanese has inspired four new magazines in recent months.

The identification of a new trend is quickly followed by the multiplication of magazines, some of which are short-lived. But total magazine sales have risen every year for the past five years, and last year totalled 35.9bn, up from 31.8bn in 1986.

Most publishing houses have profited from Japan's five years of strong economic growth , which have allowed them to cover the risks of new magazines with revenue from the advertising demand for their tried and tested titles.

Advertisers have been particularly keen to reach young women, who often live at home, have large disposable incomes, and a taste for quality. The top four revenue earners last year catered to this market, with the leading title, An An, selling advertising worth Y10.7bn, and the fourth-ranked Hanako, earning Y6.9bn, an increase of close to 70 per cent on a year earlier.

Sales of magazines (billions of copies)	
1986	31.8
1987	32.2
1988	33.7
1989	34.8
1990	35.9

Source: Tokyo Shoppan Hanbai Co Ltd

Launching a magazine for age groups yet to be discovered by the large advertisers of consumer goods is more of a risk. But the four publishing houses backing the new magazines for the middle-aged are certain that the fundamental changes in outlook of older Japanese has created a new and lucrative market.

Honto no Jidai, or The Real Age, which carries the subtitle The Lifestyle Magazine for People in Their Prime, was launched late last year and is designed to give monthly advice and entertainment to middle-aged readers. It is published by the PHP Research, an education and research institute founded 45 years ago by Mr Konosuke Matsushita, the late head of the Matsushita Group.

While the magazine is designed to encourage introspection among the middle-aged, in particular, men, who comprise 90 per cent of its readership, it is run on a commercial basis. Mr Akira Higuchi, a director of PHP, suggested that the arrival of several competitors in the same market at the same time would help attract the attention of advertisers.

Most publishing houses have profited from Japan's five years of strong economic growth

"In some ways, companies are not ready to advertise in this market. They are used to creating images that appeal to the young," Mr Higuchi said. The magazine targeted readers between the ages of 45 and 64 years, but, surprisingly, found that about 14 per cent of the 130,000 readers were between the age of 40 and 44.

"People are asking very basic questions about their existence. People of this generation were born believing that they had a life span of 60 years, but now it is more like 80 years, so they have an extra 20 years. We are giving people information on how to use their time," Mr Higuchi said.

The magazine, reckoned to be the most successful of the four, provides sometimes ponderous, but nonetheless worthy articles on "doubling the pleasure of life" and on the "I-can't-be-bothered attitude" said to afflict some of its targeted readers.

Another new magazine for the same age group is Forty Love, whose title, taken from the tennis score, is said to reflect the turning point faced at 40. The other competitors are Wakasa and Free Time, which is a little more jaunty than The Real Age.

Free Time was launched late last year with descriptions by 18 individuals of their leisure activities. As the title suggests, the magazine is attempting to tap what the Japanese describe as a "leisure boom", although the real gains in leisure time have been only incremental.

Attracting advertising and attention has been easier for Bart, a new magazine designed for males between the ages of, roughly, 25 and 32. Mr Katsuhiko Shimaji, the editor-in-chief, said the average reader "has been abroad, has not married, though he may have someone in mind, and is well off".

Readers are presumed to have an interest in current affairs, as the first two covers featured Mr Mikhail Gorbachev and Mrs Margaret Thatcher, respectively. Bart is a move up-market for Mr Shimaji, who began his editing career on a weekly magazine called Pu-re-i-bo-i, a Japanese take-off of Playboy mostly read by high-school boys.

Cover of Bart, a magazine designed for men

Bart claims a circulation of 258,000, most of it in metropolitan Tokyo. The magazine's approach shows the importance of image in Japan, as it highlights self-perceived links to the British aristocracy and what are presumed to be "aristocratic values".

These "aristocratic values" have helped the sales of many British goods in Japan, particularly high quality clothing, and are an easily recognised target for potential advertisers. Mr Shimaji said that his readers are interested in "nobility", although they also appear to have an interest in smut, as the latest edition has an "aristocratic" display of bare breasts.

Robert Thomson

Michiyo Nakamoto meets Koshiro Matsumoto IX

Starting again as an unknown actor


West End debut: Koshiro Matsumoto IX in the title role of The King and I

FOR someone who enjoys the status of a national idol, Koshiro Matsumoto IX, the Japanese kabuki actor and television celebrity, is decidedly unflamboyant.

Dressed in his favoured outfit of a black turtleneck sweater wrapped in a dark suit, the handsome but sombre-looking Koshiro is more the image of a master of goh, or tea ceremony, than a globe-trotting theatre star.

The appearance belies the stature of the man who is one of the few Japanese to have gone beyond the cosy domain of Japanese stardom and won recognition in the west.

In the spring this year, he became the first Japanese actor to star in a West End musical when he played the title role in James Hammerstein's The King and I.

His West End debut crowned a seven-month tour of the UK with the same production.

The experience has been a humbling one for the veteran actor who will be 50 next year.

"There is one thing I would like to thank the English for from the bottom of my heart," he says. "In my years of acting I had forgotten what it is like for an actor to be unrecognised; nameless. England has shown me once again, how important that is for an actor."

The admission, coming from

The West End experience has been a humbling one for the veteran actor, who will be 50 next year

someone who is used to being thronged by fans, who has been to Broadway and has several prestigious awards to his name, seems a typically Japanese show of modesty.

After all, few actors command the kind of respect, bordering on awe, that Koshiro does in Japan.

The name Koshiro Matsumoto, for one thing, extends back to the 17th century. As the ninth generation in a long line of actors to inherit that illustrious name, Koshiro naturally carries with him a certain weight of tradition.

His acting career started at the age of three as a medicine seller's son in *Sukeroku*, a tale of love and revenge.

Before he inherited the name of Koshiro Matsumoto IX in 1981, he was Somegoro Ichikawa VI. It was as Somegoro that he endeared himself to the Japanese public and won the heart of many a young woman who would hardly have thought to set foot in the Kabuki-za theatre.

But in England it is Koshiro who has been in awe of the creativity and raw energy he feels in western theatre.

"Western musicals emanate a dynamism that does not exist in Japanese theatre," he observes.

"If kabuki can be compared to a delicate Japanese-style painting on cloth, western theatre is like an oil painting – straightforward and energetic." In many ways the two are as incompatible as water and oil.

One incident illustrates the point. Practising a traditional kabuki dance along with a western dance that was required for a musical resulted in a torn leg muscle.

"In practising the two different dances I had been putting too much pressure on different muscles. My body could not cope with the conflicting demands being made on it."

The stylistic differences are

As the ninth generation of actors to inherit that name, Koshiro carries a weight of tradition

also immense. Kabuki is a drama of vibrant emotional expression in which swift acrobatics and spectacular dances crown the plot's high moments. Yet in spite of all the visual exuberance, it is very much a drama of suppressed emotion.

In the kabuki tradition suggestion is just as crucial in portraying the hero's tragic conflict between loyalty to his master and love for his family or friends – a favourite kabuki theme – as the actors' spoken words.

The audience will recognise the hero's thoughts and feelings even if they are not verbalised because the art of non-verbal communication – or *haragei* – still permeates much of everyday life in Japan.

"But in western theatre there is nothing of this ambiguity that is so typical of Japanese theatre," Koshiro says.

"Watching a western musical makes me feel like a soccer ball that has just received a good, hard kick. This is no time for ambiguity, the actors seem to be saying. In Englan*dharagei* just gets blown away."

It is ironic that one of the few Japanese actors to venture into this rough and still alien world, and to win acclaim there no less, should come from a discipline steeped in tradition where the rules of life date back to the 16th century.

Koshiro traces his fascination with western theatre to his grandfather, Koshiro Matsumoto VII, who was also a noted kabuki actor.

"My grandfather loved foreign lands, although he had never been abroad. He even learned a bit of ballet and opera himself.

"One day my grandfather told his Japanese dance students to come to the rehearsal room dressed in western dance outfits, probably leggings or something like that. He had brought chairs on to the *tatami* mats in the dressing rooms, and I believe even had lights fitted on to the mirrors to make the place look more like an authentic western dressing room. The students arrived, rather puzzled in their unusual garb, and there was Anna Pavlova!" For a master of a tradition to which western theatre was known literally as the "theatre of the red-

'If kabuki can be compared to a delicate painting on cloth, western theatre is like an oil painting'

headed", this was no casual fling.

The same seriousness of approach characterises Koshiro's own relationship with western theatre.

"When I performed in an experimental Broadway production of the Man of La Mancha, I had to tell myself that I was just one actor playing the title role. But at the time I thought if I failed there I would never be able to perform in kabuki again."

His latest encounter with the west has been just as much of a trial and a revelation. For the large part, it has been a struggle with an alien culture and language. "Every day has been an encounter with words, words, words.

"My experience in England has been very refreshing," he concludes.

"Because of it I will be able to start again as an unknown, the way actors always are in the beginning."


Ring confrontation: Hawaiian Akebono (left) faces up to the 18-year-old pin-up, Takahanada

Two important changes in the wrestling scene

Sumo gets to grips with rising stars

JAPAN'S sumo authorities have grappled with two important changes in the past few months: the retirement of the country's most famous wrestler, Chiyonofuji, and the possibility that a 238kg Hawaiian, Konishiki, will become the first foreigner promoted to "yokozuna", the most senior sumo rank.

The departure of Chiyonofuji, known to most Japanese as "The Wolf", has pushed a new generation of younger wrestlers into the dohyo, or ring, and two (pictured) have already been marked for greatness.

Akebono, to the left in the photograph, is also Hawaiian, and the other, Takahanada, is the 18-year-old pin-up boy of the moment.

The hope is that the rise of these two potential champions will attract popular interest that could have strayed with the departure of Chiyonofuji.

Takahanada has been remarkably successful this year, in and out of the dohyo. His baby-face looks have made him the darling of the sumo set, and sales of Takahanada tea cups and sundry other souvenirs have soared.

Like most of the wrestlers, he makes few public comments, though he has confessed to a love of ice-cream.

Akebono has risen quickly through the ranks, though he failed to win a majority of his 15 bouts at the May contest, ending what was a new record on 18 "kachi-koshi".

The fact that a foreigner now holds the record has caused some unease among sumo officials, who are either admirably traditional or stultifyingly conservative, depending on your sumo perspective.

Takahanada's baby-face looks have made him the darling of the sumo set, and sales of Takahanada souvenirs have soared. He makes few public comments, though he confesses to a love of ice-cream

Two years ago, Japan's chief cabinet secretary was, unusually, a woman, Mrs Mayumi Moriyama, who was refused permission to enter the dohyo to present a trophy to a tournament winner.

The issue arose again this month when a Japanese schoolgirl won a regional sumo contest and was entitled to go to Tokyo for a national contest, but was refused permission to participate.

Another large challenge is presented by the bulky shape of Konishiki, who has been on the fringe of promotion to yokozuna for the past two years.

His Japanese fans say that he should have already been promoted, but there is a faction on the promotion committee that refuses to promote a foreigner to the top rank.

More of a problem has been Konishiki's inconsistency. He won a tournament two years ago, but has failed to repeat the success.

He generally wins a majority of his bouts, and was leading the pack in the May tournament, but faltered on the final day. He has now been runner-up on seven occasions.

The departure of Chiyonofuji, who won more bouts (1,045) than any other wrestler in the history of the sport, was handled with appropriate style. He had lost unexpectedly to Takahanada, and retired two days later, saying that he could now leave the ring confident that "the new generation has come of age".

Robert Thomson

Beginning on this page, FT writers examine the evolution of Japan's relations with the outside world, in terms of countries and of issues

UNITED STATES

Sibling squabbles

JAPAN'S relations with the United States display all the characteristics of sibling rivalry. Their companies compete ferociously but their economies are inseparable and interdependent. Their two governments have seemingly constant disagreements, especially over trade, and yet they also talk of developing a global partnership born in the aftermath of the Second World War.

There are two very different accounts of the state of the relationship and its prospects.

According to the "optimists" – mainly civil servants on both sides – the relationship is tough but in good shape. Trade frictions are dealt with as they come up. The wide-ranging SII talks on structural impediments to trade were educational. The US trade deficit is falling and losing its political potency.

Politically the relationship has rarely been better. The US-Japan defence treaty has evolved into a mechanism for wider security co-operation. Japan's bilateral relationship with the US will remain central even if it seeks a wider world role.

The pessimists – usually elected politicians or business executives – see the potential for mounting conflict as the US struggles to come to terms with its economic decline and Japan starts to translate its global economic power into political influence. In the wake of the end of the Cold War the balance of the US-Japanese relationship has tipped from co-operation to competition. The two countries could become increasing adversarial if they lose any common interest in protecting an open world trading system.

The reality of the relationship is clouded in a mist of misrepresentations and misunderstandings. This is a question and answer guide to what might be in store.

■ **Is the economic relationship adversarial?**

The two economies are increasingly entwined. The US is an indispensable market for the exports which have fuelled Japanese growth. Japan is the US's second largest export market. Japanese savings have financed the US federal budget deficit and Japan runs a persistent and very large trade surplus with the US.

■ **Does that mean Japan is the more powerful economy?**

The US is still the world's largest economy. The Japanese finance of the federal deficit makes Japanese lenders vulnerable to depreciation of the dollar. Americans worry that the scale of the trade deficit hits US manufacturing jobs. They also worry that US culture is being undermined by Japanese companies' acquisition of US companies which are household names, such as Matsushita's purchase of MCA. But the real concern is that the US is increasingly technologically dependent upon the Japanese, especially in electronics.

■ **What are the reasons for the trade deficit and what might correct it?**

The two sides agree that it is primarily a mico-economic problem. However, they differ markedly on the nature of the problem.

The Japanese view is that US industry is uncompetitive but the US is not prepared to come to terms with this in its domestic policy. So it attempts to compensate by attempting to manage trade, restricting the Japanese.

The most common US view is that Japan distorts trade by selling products abroad at uncompetitive prices to win market share. The Japanese market is closed by business practices which makes it very difficult for foreigners to enter.

In contrast, Mr Hajime Ohta, director of international economics at the Keidanren, the Federation of Economic Organisations, says tha "these obstacles are not trivial, but they are insignificant"."

■ **Why does Japan accommodate US pressure if it thinks the main problem is the low competitiveness of US industry?**

Mr Koichi Hori, director of the Boston Consulting Group in Tokyo, says: "The Japanese do not really believe there is a case for them to open the markets or change. We do it, but no one really believes in it."

Fear of protectionism is an important factor in the Japanese willingness to accommodate. But Japanese officials say they are also concerned trade friction should not sour the wider relationship with the US.

By buying MCA, Matsushita also bought the rights to ET

■ **Will the Japanese continue to be so accommodating?**

Some are urging it to become more assertive and say "no" to US demands. Mr Kiyoaki Kikuchi, counsellor to the board of Matsushita, the electronics company, and a former ambassador to Canada, says: "There is pent-up frustration with the continual need to accommodate to the US. We are the successful ones, we should only have to change if we were unsuccessful. But that frustration will not come out, we will not say no."

Japan is perhaps the main beneficiary of a free trade system. But in a crisis it would not be in a position to defend the fabric of that system. Any attempt by Japan to play a wider military role would cause alarm at home and elsewhere in Asia. So it needs the US to play a strong enough international role to maintain stability so trade can prosper. To keep the US playing this world role Japan will accommodate most of its demands on trade.

Japanese politicians find it expedient to use the threat of external pressure to push through economic changes which would otherwise face considerable political opposition.

The key issue is whether the US political system keep US demands to levels which the Japanese political system finds manageable. The politics of US public opinion on Japan is potentially the most destabilising element in the relationship.

■ **Will economic frictions become entangled with security issues?**

The US military is increasingly dependent upon Japanese technology. The US definition of national security is becoming so broad it encompasses some key industrial areas as well as defence. The contribution Japan makes to international security efforts will be one of the most sensitive issues in the next few years.

■ **What values and principles would Japan stand for as a more independent super power?**

This is a question which troubles everyone including the Japanese. For decades after the Second World War, the guiding goal of Japanese society was to catch up with the west. What should be Japan's strategic purpose now it has caught up and, in some areas, passed the west?

Mr Kikuchi says: "Everyone urges us to play a wider world role without having the slightest idea what it would be and without thinking about the consequences."

A senior British diplomat notes "I am not sure we want the Japanese to have a clear ideological sense of their world purpose; no one wants a pax Nipponica."

Charles Leadbeater

UNITED KINGDOM

Window on a wider world

LONDON will this autumn host the largest display of Japanese culture ever assembled outside the country in a festival designed to show that the links between the two countries extend beyond televisions, video recorders and cars. The festival is a recognition that *although millions of British* households run on Japanese-made products, Japanese culture is largely unknown to the British.

The aim of the event is to *strengthen a relationship* which senior British officials describe as "stronger than at any point in the post war era".

The Japanese have a fondness for Britain, as a land of Scotch and golf, fine clothes and polite manners, which is largely lacking in their attitude towards the United States.

The intensity of Japan's relationship with the US is partly bred from the memory of post-war occupation. Japan had no choice but to accept US culture and priorities; in contrast it has been able to choose what it has drawn from the UK.

Most recently the issues which divided the two countries at the outset of the 1980s – access of British telecommunications companies to the Japanese market, membership of the Tokyo Stock Exchange *for British stockbrokers and* taxes on imported Scotch – have been cleared up.

A senior *ministry* of foreign affairs official says: "Our relationship is very strong."

The main symbol of that relationship in the 1980s was the surge in Japanese investment in the UK. The UK accounts for about 40 per cent of Japanese investment in Europe. The trading relationship has also developed with UK exports to Japan increasing by more than 50 per cent in the past three years. London's financial centre plays a central role in the extension of the Japanese financial system into international markets and as a channel for Japanese lending overseas.

The reasons for the close economic relationship in the 1980s are not hard to find. In the wake of the 1980-81 recession much of British industry needed modernisation. Foreign investment has helped to modernise the electronics and automotive industries.

The Thatcher government's promotion of free trade policies and its close relationship with the Reagan administration meant Japan was assured a political welcome in the UK it could not be sure of elsewhere in Europe.

At the same time Japanese companies were seeking overseas investment opportunities *to escape the squeeze* which the appreciation of the yen had put on Japanese exports and to *gain a foothold in the develop*ing single European market.

The question is whether the closeness of Britain's relationship with Japan in the 1980s was just the transitory confluence of political and economic factors or whether it is the foundation for something more lasting.

The political framework seems relatively stable. Japanese officials believe policy reform within the Labour Party means British policy towards Japanese investment and trade is bipartisan and strong enough to survive Mrs Thatcher. Most importantly, officials on both sides stress the relationship amounts to more than economics.

Mr Tetsuo Ito, director of the second west European division at the ministry of foreign affairs, says: "Our relationship with the UK is important because the UK takes a genuinely global view."

British officials say that the UK's membership of Nato, its close relationship with the US and its position as a permanent member of the UN security council are all elements it brings to the relationship. For instance, Japanese diplomats say that during the Gulf war the British provided them with more information about developments at the UN than the US.

However, the main context for Britain's evolving relationship with Japan will be the development of the European Community.

Japan regards the UK as its main interlocutor in Europe. A *ministry of foreign affairs* official says: "The UK takes a more open approach than France or Germany which still tend to take a very continental European view of issues."

The main symbol of this closeness is the British determination to fight on behalf of Japanese companies with plants in the UK, to have their products classified as European.

Last year there was growing concern in Tokyo that Britain might be left in the slow lane of a two-speed Europe. There were suggestions that the focus of Japanese policy should shift towards Bonn and Brussels. Those risks have largely abated, according to British officials in Tokyo.

They point to two other international issues where Britain and Japan are likely to find common ground.

The first is the future of the Soviet Union. Both countries have taken a markedly more sceptical approach to aid to the Soviet Union than France, Germany or even the US. Officials on both sides believe it is *likely this common approach* will be maintained.

The second is the future of China. *The main area where* Japan is likely to develop a foreign policy largely independent of the US is in Asia and in particular over approaches to China. It has already co-operated with the UK in negotiations with China over Hong Kong. This co-operation is likely to continue.

Charles Leadbeater

European Community

Relations may remain tense

WHEN Mr Jacques Delors, the president of the European Community, recently visited Tokyo he surprised his Japanese hosts by not putting trade at the top of his agenda.

Instead, in deference to the wishes of Japanese officials, he talked about international political and economic issues.

But the carefully-prepared smokescreen fooled no-one, least of all Mr Delors or his Japanese counterparts. Even more than US-Japanese relations, ties between Japan and Europe are dominated by trade.

Japan would like to extend the range of contacts to include joint moves in international politics, in developing country aid and environmental questions. It is keen to sign with the EC a political declaration, which would commit both sides to strengthening political links, similar to a pact agreed last year between the EC and the US.

But some EC states are holding out for more concessions from Japan on the economic front before agreeing the wording of the proposed declaration. As Mr Jean-Pierre Leng, the EC ambassador to Japan, said recently : "Unless we are on the right track (towards solving economic disputes), I see no possibility of real, deep political co-operation."

The difficulties of building good relations are compounded by the fact that the EC is not one country but 12. The serious differences between member states on policy towards Japan have been highlighted by Mrs Edith Cresson's recent appointment as prime minister of France. Her attacks on Japanese trade policy have prompted a rare official diplomatic protest from Tokyo to Paris.

The conflicts between Japan and Europe are coloured by geographical and cultural distance and by ignorance. Japanese complain rightly that they have always shown more interest in Europe than Europeans have in Japan.

Mrs Cresson's appointment may have changed that, at least for the moment. "Now, at last, Europeans are taking notice," says one official at the Japanese ministry of foreign affairs. But if she inflames prejudices rather than promoting genuine discussion then she will do little to close the gap between Europe and Japan. There is more hope in the solid advance of exchanges between the two regions in, for example, the increase in the number of Europeans learning Japanese. The total rose from 12,600 in 1984 to 17,600 in 1988, according to a Japanese government survey which covered students of all ages including schoolchildren.

The root of the economic tensions between Japan and *Europe is the size of the Japa*nese trade surplus and the fact that it is dominated by two industries – cars and electronics.

After shrinking steadily in recent years, from \$22.8bn in 1988 to \$18.4bn in 1990, the bilateral surplus has expanded this year – in April and May it exceeded Japan's surplus with the US for the first time in eight years.

One reason is a disturbing decline in the growth of imports into Japan of luxury goods, including art, fashion and perfumes. Another is continuing strong demand in Europe, particularly in Germany, for Japanese cars and electronics. Japan's exports to the EC last year totalled \$53.5bn, including \$9.2bn in vehicles and \$8.1bn in office equipment (including computers) and electronic components.

So far, the EC has refrained from protesting specifically about the recent increase in the surplus, recognising that it is influenced by macro-economics – Japan's imports have slowed due to a deceleration in the Japanese economy; exports to Germany are strong because the German economy is buoyant. Nevertheless, as Mrs Cresson's attacks show, many Europeans are convinced that *there are deep-seated reasons* for Japan's trade surplus which can only be changed by concerted action by European governments and the EC.

The EC has applied pressure in various ways, notably by pressing Japan for market-opening measures and by anti-dumping actions against companies thought to be selling goods at unfairly low prices in Europe. Japanese groups have mostly sought to abide by the export rules and also by industry-wide "voluntary" agreements restraining exports, for example of cars to the UK.

However, Japanese businessmen are concerned that the planned economic integration of the EC in 1992 will be combined with the erection of external trade barriers. EC officials deny that there is any protectionist intent, but Japanese executives are not convinced.

Japanese companies' main response to the danger of protectionism has been to increase investment in Europe. In the year to March, Japanese companies cut direct investment overseas by 30 per cent in response to high interest rates. But investment in Europe fell only 3.5 per cent to \$14.3bn. These investments are influenced by the need to win access to European know-how and get close to target markets. But the over-riding motive is to avoid barriers. It is not just a crude matter of substituting exports with local production. The ultimate aim is to create a well-rooted local presence so that European subsidiaries will be seen as European rather than Japanese.

Even with the best will of politicians and officials on both sides – and that cannot be taken for granted – relations are likely to stay tense for a long time to come.

Stefan Wagstyl

SOVIET UNION

Signs that world events are forcing a softer policy

BEFORE Mikhail Gorbachev arrived in Tokyo this spring on the first visit to Japan by a Soviet leader, some Japanese believed 1991 would be the year of a breakthrough in bilateral relations. The Yomiuri newspaper said so in a front page article published on the symbolic day of January 1.

In the event, hopes of a great improvement in ties foundered on the same issue which has dogged relations since the Second World War – Japan's claim to four small islands off northern Japan seized by Soviet soldiers in 1945. Even six summit meetings – two more than scheduled – between Mr Gorbachev and Mr Toshiki Kaifu, the Japanese prime minister, failed to resolve the dispute.

But, in spite of this disappointment, there are signs that world events are forcing Tokyo to soften its tough policy towards Moscow. It has slightly relaxed its long-standing restrictions on aid by extending help to victims of the Chernobyl disaster and last year to those suffering from shortages of food and medicine. The second package worth Y16.6bn ($119m) includes soft loans – which Tokyo maintains do not breach its ban on financial aid to the Soviet Union.

This modest easing of tensions is the result of Japan's fear of becoming isolated from the US and western Europe in its policy to the Soviet Union. Tokyo insists that a settlement of the territorial dispute is still a pre-condition for large-scale Japanese aid for the Soviet Union. It is also concerned about the continuing large presence of Soviet troops in the Far East, arguing that disarmament in Europe has yet to spread to Asia.

This easing of tensions is the result of a fear of becoming isolated from the US and western Europe

Nevertheless, Japan would find it difficult to maintain a cast-iron ban if the United States and European countries supported a big aid programme. Doubtless a face-saving formula could be found for Japan to contribute – for example, through multilateral aid agencies.

Fortunately for Tokyo, western governments are still a long way from agreement on such an aid programme. The Yavlinsky aid plan, put forward by Soviet and American economists, has won some support in Germany and France. But the UK and, more importantly, the US, are very sceptical about the merits of large-scale aid until Mr Gorbachev shows that he is willing to implement radical economic reform. So Japan is in the comfortable position of being on the American side of the argument.

President Gorbachev and Prime Minister Kaifu link fingers in a good luck gesture after signing a joint declaration

For Japanese officials it is not just a question of the northern territories. They have a very hard-headed approach to development aid, insisting that loans should only be made if there is a realistic prospect of being repaid. The point is not to withhold funds in some Scrooge-like way, but to ensure money is not wasted. This line of reasoning makes some Japanese officials almost wary of parts of eastern Europe – including Poland, Bulgaria and Romania – as well as of the Soviet Union.

A foreign ministry officials says that in the Soviet Union's case, the plans advanced for reform are vague and Mr Gorbachev's commitment to them is unclear. Also conservative forces, including the army, could fight change.

Moreover, whereas the US and western Europe see aid to the Soviet Union primarily as a question of investing in European Russia and the western republics, Japanese officials and businessmen look most favourably on investments in the natural resources of Siberia and the Far East.

Companies are putting together ambitious plans including a proposal by Mitsui, the trading company, for a venture with McDermott International, a US group, for a $1bn-plus scheme to develop a natural gas field off the coast of Sakhalin. The partners would build a pipeline to Vladivostok, the biggest city in the Soviet far east.

Equally vast is a scheme dating back to the 1970s by Sakhalin Oil and Gas, a consortium of Japanese companies supported by the Japanese government, to develop another offshore field near Sakhalin and pump the gas to Hokkaido, in northern Japan.

Businessmen return from Moscow overwhelmed by the Soviet Union's economic difficulties

But the prospects for these and other mega-projects are poor. Large schemes can only go ahead with financial support and guarantees from the Japanese government. Mitsui says it has yet to start a feasibility study. "It's just an idea at this stage," says an official.

Even small-scale proposals rarely bear fruit. Tokyo Maruichi Shoji, a medium-sized trading company, recently announced a joint $1m joint venture for a fish processing plant in Vladivostok. But an official at the Japan External Trade Organisation (JETRO), estimates there are only about 10 such Japanese ventures in the whole of the Soviet Union. Even in Sakhalin island, which lies just north of Japan in the Soviet Far East and is frequently cited as a possible location for potential substantial Japanese investments, very few joint ventures have actually been put into operation. They include enterprises in fishing, fish farming and a Japanese restaurant.

Japan's imports – mainly lumber and other raw materials – from the Soviet Union have been steady for the past two years and totalled $3.4bn in the year to March 1991. But exports have slumped from $3.1bn in 1989 to $2.5bn in the year to March, due to the decline in the Soviet Union's ability to pay for goods amid increasing economic dislocation. Unpaid trade debts have been mounting.

Japanese businessmen return from Moscow overwhelmed by the Soviet Union's economic difficulties. Many think that even if government aid were available there may be little point investing in a country where bureaucratic confusion reigns.

Stefan Wagstyl

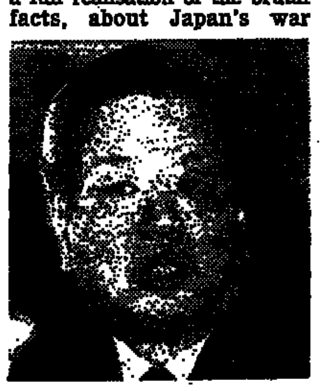
CHINA

That special feeling returns

ON MOST days this year, a Japanese company has announced an investment, a joint venture or a new purchasing agreement with a Chinese corporation. The companies have been big and small, and the products have ranged from men's suits to supermarkets and, more recently, computer software.

The flow of funds into China has been accompanied by a flow of Communist Party officials to Japan, which has become the most convenient platform for a Beijing government still attempting to convince ordinary Chinese it has international respectability.

Tokyo has been flattered by the attention, as there is an enduring sense of shame, if not a full realisation of the brutal facts, about Japan's war against China from 1937 to 1945. And there is a sense of frustration that lingering Chinese bitterness has compromised a "special relationship", a relationship important for historical and cultural reasons.



Qian Qichen: a new era of bilateral relations

But Beijing has made Tokyo feel "special" again. At last year's Houston summit, Mr Toshiki Kaifu warned against the alienation of China, and Chinese officials had repeatedly encouraged Japanese counterparts to push for an easing of international sanctions imposed after the crushing of the pro-democracy movement in June 1989.

Japanese leaders regularly lectured visiting foreign officials on their "special" understanding of the situation in China, and a year ago, Mr Shin Kanemaru, a heavyweight in the ruling Liberal Democratic Party, did a hop from Taiwan to Beijing, and sought to present himself as a mediator in the reunification of China.

Mr Kanemaru was getting a little carried away. In spite of appearances, Beijing has not forgiven Japan for its wartime barbarism, and elderly communist officials, who increased their influence after June 1989, are even less inclined to forgive than their younger comrades. The "war against Japanese aggression" was, as every Chinese school child learns, a moment of high heroism for the Communist Party and for some of the former revolutionaries who still run the country.

Japanese companies have correctly recognised that while the communist elders still influence policy in Beijing, they have less control outside the capital, where economic reforms have altered the political landscape and changed the attitudes of local officials.

Often parochial provincial officials are competing for foreign money and are not much bothered whether it comes from Tokyo, New York or London. They have seen the value of economic reforms over the past decade, and are reluctant to allow Beijing to reassert central control over public spending and taxation.

Ms Akiko Murakami, a director of the China section at the Japan External Trade Organisation (Jetro), said most Japanese investors believe that China will remain economically stable even during the inevitable power struggle after the death of Deng Xiaoping. "Many Japanese companies feel that the economy is now separate from the political debate and that China must keep expanding. You can tell people are confident because we are getting calls every day from small- and medium-sized companies that are interested in investing for the first time."

She expects this interest to show up over the next year in foreign investment, which rose by a number of projects but fell in total value last year. The new-found confidence has already shown up in bilateral trade figures. Japan's exports to China in the first five months of this year rose 36 per cent to $2.98bn, while imports from China were 26 per cent higher at $5.47bn.

Japanese steel makers say their sales of special steels to China will virtually double this year, and car exports more than doubled in the first quarter this year. The Japanese government expects that bilateral trade, which totalled $4.99bn in the first quarter, will pass the $20bn mark for the first time this year.

Bilateral trade last year totalled $18.18bn, down 7 per cent on 1989, which was a record year in spite of sanctions imposed after the troubles in Beijing. Japan's exports to China last year fell 28 per cent to $6.13bn, and imports from China rose 8.1 per cent to $12.05bn.

The rise in import value was due partly to the rise in oil prices, reflected in a 24.2 per cent increase in mineral fuel imports, but the effects of Japanese investment were reflected in a 51.1 per cent increase in imports of machinery, a significant percentage of which is believed to have come from joint venture factories.

Last year's decline in trade value, the first since 1986, was blamed more on Beijing's tight control of foreign exchange than on the impact of sanctions. That control has been relaxed this year, but Tokyo is still wary of changes in China's import policies, which have fluctuated wildly over the past decade. Surges in imports have been followed by sudden crackdowns that left contracts unfulfilled and foreign suppliers disgruntled.

The recent Tokyo visit of Qian Qichen, China's foreign minister, coincided with the announcement of the first Chinese bond issue in Tokyo since June 1989. A spate of new issues is already scheduled and the renewed access to the Tokyo market gives China important financial flexibility.

Chinese corporations generally do an immediate swap of yen for dollars, as the appreciation of the Japanese currency in the late 1980s hurt Chinese borrowers, some of whom had to reschedule loans from Japanese institutions.

Qian saw a scheduled visit by Mr Kaifu next month to Beijing as ushering in a new era of bilateral relations.

Robert Thomson

MIDDLE EAST

Oil is the dominating factor

JAPAN'S lack of domestic oil reserves and its consequent need to import the bulk of its crude oil from the Gulf states has dominated Japan's foreign policy towards the Middle East over the past two decades.

There are signs that this policy has shifted since the end of the Gulf war towards promoting a more active, and less overtly pro-Arab, role for Japanese commerce in the region; and a more balanced, mediatory, role for Japanese diplomacy between Israel and the Arab states.

For the recent Gulf crisis has once again demonstrated how potentially destabilising Japan's dependence on Middle Eastern oil can be, and how militarily powerless Japan is to secure its oil supply once a military conflict is under way.

Japan has been trying to reduce its dependence on Middle East oil since since the 1973 oil crisis – but with only moderate success. In the last fiscal year, 71.3 per cent of Japan's crude oil imports came from Middle East countries, down from 76 per cent in 1979. The United Arab Emirates had the largest share with 21.4 per cent of the total followed by Saudi Arabia (19.5 per cent) and Indonesia (12.5 per cent).

Nor is this dependence likely to fall further. Mr Ikuo Hamabayashi, of the Petroleum Association of Japan, believes that rising domestic oil consumption in Indonesia, Mexico and China will reduce the amount of oil these countries will be willing to export over the next decade. "The relationship with the Middle East will remain strong and may grow again over the next decade," he said.

The Gulf crisis, and the loss of oil supply from Iraq and Kuwait, did not have a destabilising effect on the Japanese economy as oil supplies were maintained and even increased. The moderate rise in the dollar price of oil was largely offset by the appreciation of the yen against the dollar during the conflict.

Still, the strategic importance to Japan of stability in the Middle East explains why the unwillingness of the Japanese public and politicians to make anything more than a financial contribution to the Gulf war effort caused annoyance in the US and embarrassment among many Japanese government and business officials.

The reason for Japan's inaction was Article 9 of the Japanese constitution which renounces the use of force to settle international disputes. In the past it has been interpreted as banning the overseas despatch of military personnel.

Japanese defence policy has since shifted. Four minesweepers are helping in the Gulf clean-up. This is the first time in Japan's post-war history that Japanese forces have been sent overseas. As recently as 1987 the Japanese government tried and failed to send minesweepers to the Gulf.

This embarrassment has also prompted the Japanese government to make it known that it did not want to see Japanese corporations rushing to compete for contracts for Kuwait's reconstruction.

"If they need Japanese companies they will call us," said Mr Yoshitomo Takeuchi, Mitsubishi Corporation general manager responsible for the Middle East.

They may not wait for long. Japanese companies installed much of the infrastructure in Kuwait. "It is logical for those who constructed them to repair them," said a ministry of foreign affairs official. Already Mitsubishi Heavy Industries has been offered a contract to repair a power station it built in Kuwait.

Mr Yoh Kurosawa, president of the Industrial Bank of Japan and executive of the Japan co-operation centre for the Middle East, does not think this caution will be reflected in Japan's dealings with other Middle East countries. "The Saudis are asking 'come to Saudi Arabia and establish manufacturing industry here'," he said.

Already three Japanese companies – Nippon oil, Nippon Mining and Arabian – are involved in a "pre-feasibility" study for the first joint venture between Japan and an oil-producing nation. Their partner is Aramco, the state-run Saudi Arabian oil company, and the project is to build two oil refineries, one in Saudi Arabia and the other in Japan.

The project will reduce Japan's reliance on oil refining in the Middle East and strengthen Japanese ties with Saudi Arabia.

Mr Keiichi Konaga, president of the Arabian Oil Company, confirmed that a US company, Caltex Petroleum, may also be invited to join the project.

"If it is agreed that a US company would be involved then the consequences would certainly serve the multilateral security of oil supplies," he said.

The Arabian Oil Company knows about the risks of refining in the Middle East. Its small Ras al-Khafji refinery, situated in the neutral zone near the Kuwait border, was hit by an Iraqi missile during the conflict and closed at the request of the Saudi government. Damage was light and production was resumed in June, though it remains at around a third of normal levels.

Iran is another Middle East country with which Japan is likely to strengthen economic and political ties. Iran supplied 10.7 per cent of Japan's total imports last year; and its need to rebuild its infrastructure after the Iran-Iraq war represents another commercial opportunity for Japanese companies.

The Japanese ministry of foreign affairs is keen to strengthen political ties with Iran. But Mr Alipour, an Iranian embassy official in Tokyo, expressed Iran's growing frustration that closer diplomatic ties between the two countries have not produced any tangible result such as aid or trade credits. "We have not used oil as a bargaining chip; but we have reminded them of our role as a major energy supplier to Japan."

Japanese foreign officials, in their search for a wider global but non-military role for Japanese foreign policy, now talk of Japan as a possible mediator between Israel and the Arab states.

Following the first oil shock in 1973, Japan's stance moved from neutral to firmly pro-Arab, supporting the Arab economic boycott of Israel, and pro-Palestinian. The PLO has had a liaison office in Tokyo since 1977.

Amos Radian, first secretary at the Israeli embassy in Tokyo, argues that Japan's attitude to Israel has softened in recent years. "You cannot be a mediator when your approach is known to be 100 per cent pro-Arab," he said.

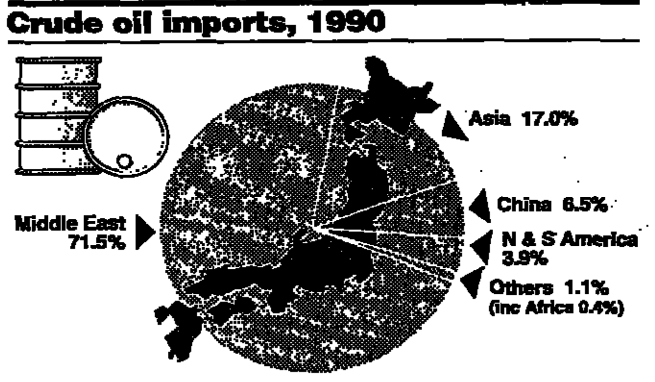
Japan has strengthened its economic ties with Israel in recent years and is now Israel's second largest export market. Before the Gulf war Japan had tacitly accepted that the boycott was a price worth paying for oil security.

But since the end of the Gulf conflict, Toyota, Mazda, and Nissan have announced that they will start exporting to Israel. "The Toyota decision is very symbolic," said one official at the ministry of foreign affairs.

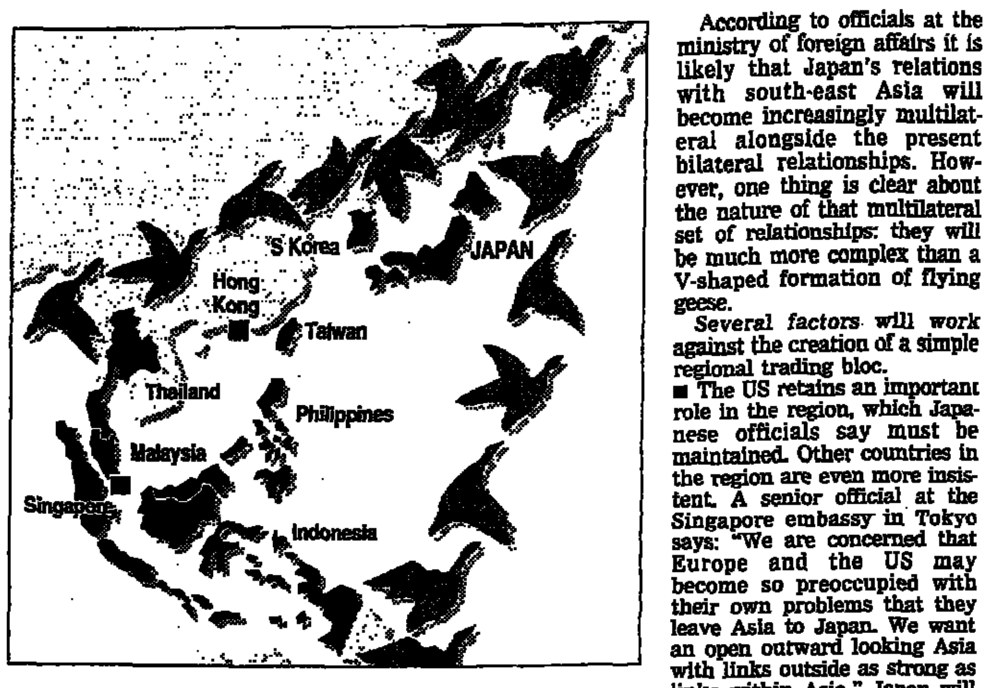
Yet Mr Kurosawa says that the change in attitude towards Israel can only occur with the blessing of the Arab world. "We are dependent for 70 per cent of our oil from the Gulf area; but none from Israel."

Edward Balls

Crude oil imports, 1990



Source: Ministry of International Trade and Industry



SOUTH-EAST ASIA

Leader of the flying geese

THERE is a simple, widespread and appealing account of Japan's relations with the south-east Asian economies which nestle around it. It goes something like this.

Japan is the leading goose flying at the head of a V-shape formation of birds. Japan is already the economic leader of these economies – principally Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand and the Philippines.

Increasingly they will follow its political lead as well. They will fall into a tight formation behind their leader not just in trade policies but in economic policy more generally, in time accepting Japan's political leadership of a trading bloc to match the European Community in scale.

A new regional power bloc is in the making with untold consequences for the balance of economic power in the world as a whole.

The currency of the flying geese theory of Japan's ambitions in south-east Asia is not without foundation. It is based on an important truth – Japan is fast becoming the undisputed economic leader of the region.

But beyond that the image of the flying geese is as misleading as it is neat.

There is little doubt that the economies of south-east Asia are likely to become more integrated around Japan as the hub. Japanese investment in the region is growing faster than any other country and it should soon overtake the US as the leading foreign investor.

In manufacturing especially, Japanese investment is being driven by forces which show no sign of abating. Japanese investment in Europe and the US has mainly been intended to create plants to serve local markets. The attraction of south-east Asia was initially as a cheap labour, low cost, export base in the face of the appreciation of the yen.

However, in the past few years the dynamic of Japanese investment has been changed by two factors. First, the south-east Asian market itself is becoming more attractive as industrialisation generates higher consumer incomes.

Toyota, the car manufacturer, has ambitious plans to invest Y80bn over the next few years to take its sales in the region from about 300,000 cars and light trucks this year to 500,000 by 1995, according to Mr Akira Yokoi, director responsible for the area. After growth in demand of about 25 per cent in the past few years, Mr Yokoi expects demand to grow by about 10 per cent in the next five years making south-east Asia one of the world's fastest growing car markets.

Catering for that growth will require additional investment not just in assembly facilities but also in supplying industries to raise the quality of locally-made components.

Second, Japanese companies are upgrading their plants to make more sophisticated products. Cheap assembly line labour is no longer the chief attraction, according to Mr Hisao Tahara, director responsible for Asia of Matsushita, the electronics company.

Mr Tahara, foresees a developing division of labour between Japan and the south-east Asia economies where Matsushita has 41 manufacturing plants, 13 of them in Malaysia.

Having moved from making basic components in the 1960s into more developed products, countries such as Malaysia, which makes 1.2m Matsushita televisions a year against the 6m made in Japan, should start to take responsibility for the design of televisions as well as their manufacture, Mr Tahara says.

Japan would begin to concentrate on the development and production of only the most sophisticated, large televisions incorporating high-definition technology. Malaysia could then become a centre for mass manufacture of many middle-ranking products, exporting around the world.

In 10 years' time Malaysia would become the source of basic colour television manufacturing technology for the emerging economies of western Asia such as Cambodia. Mr Tahara explains: "By that time the technology for those basic televisions will no long exist in Matsushita Japan because it will have been transferred to other Asian economies."

The increasing interdependence of manufacturing in Japan and its neighbouring Asia economies could in time lead to pressure for further macro-economic integration to provide a stable framework for business planning, for instance, currency alignments and interest rate policies. The growing integration of macro-economic policy could in turn create the need for regional political institutions to govern the economic framework for the region.

According to officials at the ministry of foreign affairs it is likely that Japan's relations with south-east Asia will become increasingly multilateral alongside the present bilateral relationships. However, one thing is clear about the nature of that multilateral set of relationships: they will be much more complex than a V-shaped formation of flying geese.

Several factors will work against the creation of a simple regional trading bloc.

■ The US retains an important role in the region, which Japanese officials say must be maintained. Other countries in the region are even more insistent. A senior official at the Singapore embassy in Tokyo says: "We are concerned that Europe and the US may become so preoccupied with their own problems that they leave Asia to Japan. We want an open outward looking Asia with links outside as strong as links within Asia." Japan will insist that any economic grouping will have to include the US and be based upon free trade principles.

■ There is no Asian identity, shared history, culture or religion upon which common political policies could be built. The differences in levels of economic development in the region are far greater than within the EC. Mr Lap Sun Lee, chief representative of the Hong Kong economic trade office in Tokyo, says: "It is far harder for Asia to be Asian than it is for Europe to be European." This diversity means that any economic grouping would have to be relatively loose.

■ It will become more difficult to draw the boundaries of the regional economy if the socialist economies of Indo-China and Siberia continue to open themselves to the market and foreign influences. In time, China could become a very large goose indeed and quite impossible to fit within a formation designed for the likes of Thailand.

■ Unease about Japan's economic dominance has lessened compared with the 1970s. Mr Yokoi at Toyota recalls near constant disagreements with local partners even as recently as 10 years ago. However, there is still considerable concern about Japan's wider ambitions. Any move to give Japan regional political leadership in settling territorial disputes or in security would quickly rekindle fears of its potential military power.

Charles Leadbeater

RICE and GATT

Going against the grain

THE JAPANESE government has been forced into a corner over the highly politicised subject of rice imports. In recent months it has come under strong pressure from the US to lift its ban on rice imports. But domestically the government faces strong opposition to any relaxation of the ban, from the vocal and powerful farming lobby and from the majority of Japanese consumers.

Widespread opposition to foreign imports comes in spite of the fact that Japanese consumers pay more than six times the world market price for rice as a direct result of the ban and the inefficiency of Japanese farmers.

The rice market provides an easy target for US politicians looking for tangible evidence that government-sanctioned protection still exists in Japan. The rice problem recently provoked a wider diplomatic row between Japan and the US when a group of US farmers were threatened with arrest for displaying US-grown rice at a Tokyo trade fair.

In fact, Japan is the largest net importer of agricultural products of any country. In recent years the level of protection has been reduced through

The OECD estimates that the level of Japanese protection in agriculture is well above the average

the removal of quantitative restrictions on imports of beef and citrus fruits. Nevertheless, the OECD estimates that the level of Japanese protection in agriculture is well above the average in OECD member countries.

Japanese politicians are widely believed to have accepted that the import ban will be relaxed as part of an agricultural agreement in the Uruguay round of trade negotiations to which agricultural protection remains a major stumbling block. But government officials and politicians describe rice as a "very difficult" domestic political issue and are unwilling to confirm publicly that the ban on foreign imports will be eased.

The official government line remains that it is the dispute between the US and the EC over farm subsidies, not Japan's protected rice market, that has caused the present impasse in the GATT negotiations; and that a gesture to open the Japanese rice market would be counter-productive.

"We have already decided that the rice matter could be solved along with other countries' difficult matters," said Mr Noboru Hatakeyama, vice-minister for international affairs at the ministry of international trade and industry. "But Japan has no export subsidies in the area of agriculture. If Japan concedes on rice, the export subsidies will still remain."

Why is the rice question such a "difficult" issue for Japanese negotiators? The complex reasons behind this overtly protectionist policy have much to do with Japanese history and politics – and little to do with economics.

The standard justification for the ban is food security. Supporters of the rice import ban are quick to point out how much Japan already relies on imports for other staple foods. Japan produces domestically only around a half of its population's total calorie consumption. Only 30 per cent of grain is grown domestically.

The fear of being left without food in a time of crisis is deeply felt. "Right after the Second World War, I still remember there was nothing for us to eat. Many people still share that feeling," said Mr Kosuke Hori, an LDP member of the House of Representatives and agricultural policy specialist.

Japan's small-scale, often part-time, rice farmers would almost certainly be harmed by competition from cheaper foreign rice, in particular from Thailand, if the import restrictions were completely removed. The average farm size is 0.86 hectares, less than 1 per cent of the average US farm size.

Dr Fumio Egaitsu, a professor in Tokyo university's department of agricultural economics and a firm supporter of the import ban, argues that opening the rice market would reduce domestic production to at most 2m tonnes a year compared to 10m tonnes at present. There is scope for reducing the costs of rice production in Japan by between 30 and 50 per cent, he calculates. But Japanese rice would still be more expensive than imported rice because of higher Japanese labour costs.

Rice is not only important in Japan as a staple food source. Professor Egaitsu argues that the country's social stability will be threatened if cheaper rice imports disrupt rural farming communities. "In Japan social stability is based on the maintenance of rural communities. If we lose rice farming then many of them will have to be abandoned. This will cause social unrest."

There is a more basic political reason why all Japan's political parties support the ban. Japan's farmers constitute a well organised and powerful political lobby; 50,000 farmers rallied in Tokyo a fortnight ago to oppose a lifting of the rice import ban.

More importantly, the rural vote has a disproportionate weight in the Japanese electoral system. Japan's political map has not been sufficiently redrawn in the past 40 years to reflect the movement of population from rural to urban areas. But there are signs that the political influence of the farming lobby may be declining. The proportion of Japanese households in farming has halved over the past two decades.

While the farmers are the winners from protection, consumers are the clear losers. Yet they do not represent a counter-weight to the farming lobby. "It is not a big political issue for the Japanese people," according to Mr Teruka Isahikura, executive director of the Zenchu, the central union of the agricultural co-operatives.

Rice takes only 1.8 per cent of the average Japanese household's weekly budget; and recent opinion polls suggest that most Japanese support the import ban. According to Zen-

Japan's small-scale, often part-time, rice farmers would almost certainly be harmed by competition

chu, recent poll evidence shows only 17 per cent of Japanese favour the liberalisation of the rice market (down from 20 per cent last year), though there is also a growing popular recognition that the ban on rice has become an important source of trade friction.

Politically there has been little to gain and much to lose by upsetting the farmers. The Liberal Democratic Party has been careful to maintain close links with the farming lobby; and the opposition Social Democratic party, formerly the Japan Socialist Party, is, if anything, more protectionist.

But Japanese industrialists are also a powerful lobby; and they are increasingly frustrated that trade negotiations are being hampered by protection of inefficient farmers in Japan and elsewhere.

The Keidanren, the employers' federation, is one of the few important groups publicly to support a liberalisation of the rice market. But it does not argue that the rice market should be immediately opened to imports. Mr Kozo Uchida, managing director of the Keidanren, argues that the domestic market should be deregulated first, "to provide an opportunity for Japanese rice producers to become internationally competitive".

The government is expected to agree to a short-term import target of around 3 per cent of total rice sales with vague promises of further increases. Anything more would be politically risky for the LDP.

Edward Balls

OVERSEAS DEVELOPMENT ASSISTANCE

Pride dented by criticism

JAPAN'S overseas development assistance (ODA) has been a source of Japanese pride in recent years. The government claims that through its aid policy Japan is playing a politically responsible, but non-military, role in the world, increasingly consistent with its economic strength.

Yet Japan's aid policy has been a regular target for criticism from the US and many recipient countries, particularly in Asia.

The criticism focuses on what is described as the poor quality of Japanese aid – its preference for loan aid rather than grants and its bias towards spending on infrastructure rather than on education and health.

Japan's pride in its rise to become the world's leading donor in 1989 has taken a knock in recent weeks with the announcement that Japan fell into second place in 1990. In fact, Japan was ranked only 12th in the OECD development assistance committee's list of donor countries in terms of their ODA to GNP ratios in 1990.

Japan has also fallen behind on its five-year commitment to increase aid spending by $50bn between 1998-1992. The ministry of finance said Japan was unlikely to meet the target which would require a further $23bn of spending this year.

The aims of Japan's ODA policy appear to have been broadened recently, against a background of international criticism over Japan's inactivity during the Gulf conflict.

In April 1991, Mr Toshiki Kaifu, the Japanese prime minister, spelled out a number of criteria which will be taken into account in allocating ODA: the non-proliferation of weapons of mass destruction; democracy; market orientation; and record on human rights.

Mr Seiichi Nagatsuka, senior deputy director of the ministry of trade and industry's economic co-operation division, explains that Japan has traditionally taken a "hands-off" approach to aid.

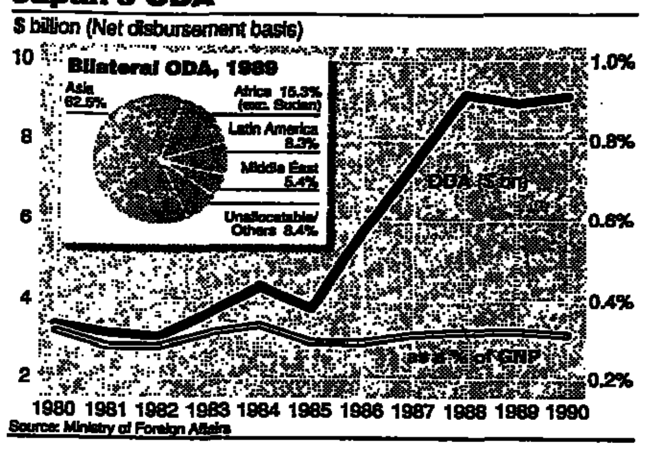
"The purpose of Japanese aid was to support economic development, not to press Japanese ideas or methods on developing countries. Now Japan is going to follow a little more the more conventional pattern of western aid. Now we are being a bit more egoistic," he said.

Recently Japan has attached human rights and environmental conditions to an ODA loan for the first time. A $250m loan to build a dam in Koto Panjang in Sumatra, Indonesia, has been held up by Japan until the Indonesian government agrees to compensate, and obtains the consent of, the 15,000 people who will be displaced. Japan has also requested the relocation of 30 Sumatran elephants whose habitat will be destroyed.

This decision may reflect the new policy; but the Japanese government is also being more cautious after its recent uncomfortable experience with the Narmada dam project in southern India. Japan has been forced to suspend its share of the finance for this joint project with the World Bank following opposition to the dam from environmental groups in India and Japan.

Japan's ODA

$ billion (Net disbursement basis)



Source: Ministry of Foreign Affairs

Mr Kazuo Sumi, professor of international law at Yokohama and a critic of Japanese ODA, argues that Japan has consistently used development aid to serve the economic interests of Japan rather than of the developing countries; and that, in practice, much of Japan's aid contracts tie the recipients to spending the aid on purchases from Japanese companies.

Originally, Japanese foreign aid took the form of reparations to the east Asian countries that suffered at the hands of the Japanese during the war. In 1989, 62.5 per cent of Japan's total bilateral ODA went to countries in Asia, down from 70.5 per cent in 1980. But in 1989 Japan was the largest single donor to the least developed countries; and the share of sub-Saharan Africa in total bilateral aid virtually doubled in the 1980s.

A recent report on Japan's aid policy by the OECD development assistance committee (DAC) welcomed the recent growth in Japan's aid spending and its rising "quality".

Mr Nagatsuka points out that the percentage of tied loans has fallen from 100 per cent in 1979 to zero in 1990; and the share of Japanese companies in total procurement had fallen to 27 per cent in 1990 from 55 per cent in 1987. "I think we can say that the share of untied aid is highest in Japan," he said.

Still, Japan has the lowest share of grants of all the DAC member countries – 43 per cent compared to a DAC average of 76 per cent – though the percentage of ODA in grants has also risen in recent years. The severe shortage of Japanese staff available to work in developing countries is one important reason for the low percentage of aid spending on labour-intensive areas such education and health.

The organisation and implementation of Japanese ODA has come under severe strain as the aid budget has increased. The DAC report expressed "concern about the capacity of the Japanese aid system to manage a rapidly growing, large aid programme". Between 1979 and 1989 total ODA staff rose by 41 per cent to a mere 1,490. During this period the total ODA budget rose by 240 per cent and the total number of projects by 64 per cent.

The ministry of foreign affairs 1990 ODA report concludes that "any comparison with the other industrialized nations makes it apparent that Japan cannot claim to have adequate resources of personnel". Yet the ministry of finance remains unwilling to raise recruitment levels.

This unwillingness is a reflection of the fractured organisation of Japan's ODA administration. The ministry of finance is responsible for monitoring the aid budget; but responsibility for the disbursement and effectiveness of ODA is shared among the ministry of foreign affairs, the ministry of trade and industry and the Economic Planning Agency.

As important in explaining the staff shortage is the difficulty of finding Japanese who are willing to travel abroad to work in developing countries. Life in Japan is comfortable; and Japanese companies are often unwilling to recognise periods spent working abroad. Spending two years abroad means one has lost two years on the careers ladder, a government official explained. "Work concerned with aid is not considered an executive job."

Edward Balls

Emiko Terazono on education

Evening out differences

BEING different can be difficult in Japan. This is particularly true within the rigid educational system.

Japanese children who have received their elementary or secondary education overseas are apt to discover this. The systems are so different that when I returned to Japan at the age of 10 in 1975 after five years in London, I was shocked to find out that what I had learned at Putney Park School, in southern London, was virtually irrelevant.

At Putney Park, I learned to write stories and poems, say my times table, make Christmas cake, tap dance and play netball. But once thrown into a Japanese public school these skills proved to be of no use, and the inability to speak, read or write Japanese made me a complete outcast.

The number of "returnees", or children of Japanese expatriates, have increased over the past decade in line with the number of Japanese companies expanding their worldwide networks. According to the ministry of education, in the year to March 1990, the number of students returning from abroad rose to 11,450, up 74 per cent from 1980.

This increase has led to a change in attitudes within Japan. Education for returnees was taken up as a national project by the ministry of education in the 80s. The number of schools in Japan, with special programmes for returnees, more than doubled to 256, and overseas full-time and Saturday class Japanese schools for children of expatriates have increased from 111 in 1987 to 231 this year.

But in 1975, returnees were still uncommon, and I was one of 4,500 children who returned that year. Most of my friends who came home around the same time also had similar experiences of being bullied or ostracised at school.

In a system where one is told over and over again to conform, ordinary Japanese children seem to be intolerant of those who are different. The presence of someone who blew her nose with a handkerchief instead of tissue paper, or tried to put a thermometer in her mouth instead of under the armpit, was that of an alien, and my classmates called me *gaijin*, or foreigner.

Recently, the returnee, or *kikokushijo* as they are commonly called, are accepted as those who lived several years abroad, are fluent in English or other languages and hence have a different accent and mannerisms.

In the business world the returnee now has more opportunities. Previously companies were reluctant to hire returnees as they were thought unable to work in groups. But in the past five years, companies trying to "internationalise" have started to recruit bilingual or trilingual returnees familiar with different lifestyles and cultures.

At a Japanese public school skills learned in England proved to be of no use

During the recruitment season in the summer of 1987, I discovered that being a returnee made job interviews much easier. On my second interview with Mitsui Bank, the general manager of the personnel division waved his arms in the air and said: "A person like you is most welcome!" Finally, when I decided to join the Bank of Tokyo, I found that including myself, four of the five selected women for career-track jobs were returnees.

But while there seems to be a wider acceptance of returnees, Japanese children overseas are less eager to blend in with overseas communities. Mr Makoto Kiyoshima at Japan Overseas Educational Services, a foundation backed by the foreign ministry and the ministry of education, says that this reflects the attitudes of the parents who fail to participate in community activities, or communicate with neighbours.

"Previously, Japanese who were sent overseas, thought themselves pioneers, and tried hard to blend in with local customs and to contribute to communities. Now that is changing, and the children are making fewer friends in their local communities," adds Mr Kiyoshima.

Instead, more and more expatriates think that their stay is only temporary, and try to recreate Japan in foreign lands. Japanese expatriates in New York will talk in Japanese to Japanese colleagues at the office and socialise with Japanese friends. A Japanese child will play with Japanese friends, read Japanese comics, and go to Japanese-run cram schools to prepare for examinations in Japan.

"Some teachers at local schools are now complaining that Japanese children, tired from their late nights at cram schools, would sleep during class hours," says Mr Kiyoshima.

A few private boarding schools, such as Gyousei International in London, and Seijou Gakuen in Colmar, France, have managed to take the complete Japanese educational system abroad. Japanese students escape the competitive system and enjoy the luxury of being abroad, while living and studying in a complete Japanese environment. A result of such programmes is that the the number of returnees dropping out of schools in Japan has declined drastically.

Returning students are acutely aware of the tragic stories of the bullying of children who do not fit the Japanese norm, and so they attempt to be as Japanese as possible. Ms Yoko Tanaka, who has been teaching the private Seikei Elementary School's special class for returnees for 25 years, says that recent returnees have not absorbed as much of the different cultures as her past students.

She adds that even the eating habits of recent returnees tend to be more Japanese. "The children laugh when I ask them why they prefer Japanese food to western food. One child said: '*Sensei* (teacher), if you're willing to pay the price, you can get anything Japanese abroad'."

English lessons: a Japanese student at Putney Park School

Michiyo Nakamoto compares UK schools with those in Japan

A lesson in independence

JAPANESE parents who enrol their children in English schools quickly discover that differences between the educational system in Japan and the UK can be greater than they had feared.

My experience of sending two boys to a private school in London demonstrates that the differences in standards stem largely from differences in the curriculum and the contrasting attitude of parents and teachers towards education.

Unlike in the UK, at Japanese schools there has always been a highly regulated curriculum drawn up by the ministry of education.

Teaching is systematic with the emphasis firmly placed on learning by rote. By the time students finish primary school at 12, they are expected to have mastered close to 1,000 *kanji*, the Japanese characters, in addition to two sets of phonetic alphabets, not to mention basic mathematics and other subjects.

In contrast, the UK system appears haphazard and lacking in clear-cut goals. Performance targets, where they do exist, are undemanding by Japanese standards.

The attitude towards academic work in British primary schools is relaxed, with each child progressing more or less at his own pace.

Lessons in Japanese schools progress at the required rate to satisfy the national curriculum. From an early age, children falling behind will have extra work to do.

Communication between parents and the UK school is also often minimal. At the London private school my children attend parents are given far less information on lessons and their child's progress than would be expected in Japan.

To my knowledge there is no parent-teacher association. In the eight months since enrolment, parents have not been invited to attend a lesson, although there have been displays of the children's work.

The kindergarten my sons attended in Japan expected parents, usually the mother, to be available to watch lessons at least once every few months. One-to-one meetings with teachers were also held once a term. In addition, fathers were frequently invited to attend lessons on Saturday.

There were more PTA meetings than I could keep up with and the kindergarten even provided a monthly seminar for parents on various topics ranging from discipline to healthy eating habits.

Parent involvement at the primary school level is often greater, particularly if the school is a private one.

Yet in spite of the considerable problems their children are likely to face when they return to Japan, a growing number of Japanese expatriates are sending their children to British schools.

They do so in the hope, not only that their children will learn to speak English, but also that the experience will broaden their perspective.

Many Japanese parents, including my husband and I, who have been through the rigours of the Japanese education system are happy to see their children educated in the British school environment which fosters independence and creativity – qualities that tend to be overlooked at schools back home.

They are counting on the happy prospect of a carefree childhood complemented by a more rigorous academic life in Japan at a later stage.

The hope lives on in spite of evidence which suggests that more often than not such parents are in for a nasty surprise.

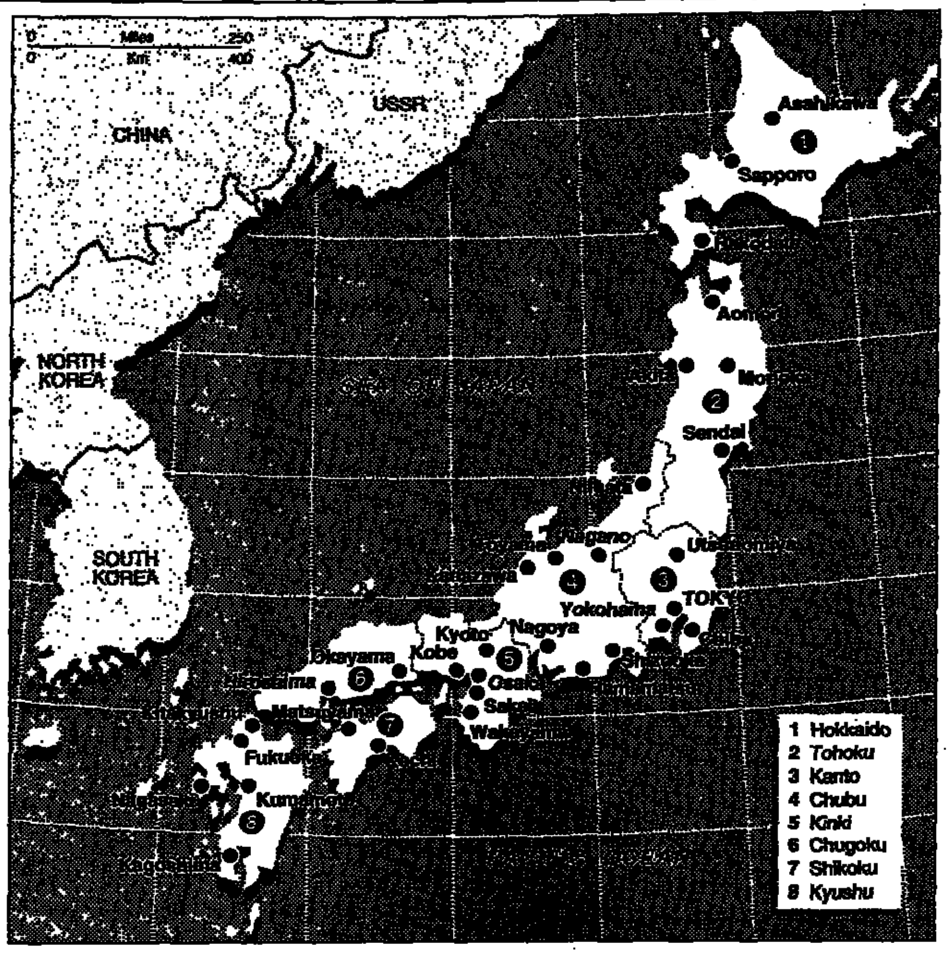
KEY FACTS

Area		377,815 sq km
Population		123.12m
Average exchange rate		1990 $1 = Y144.79

ECONOMY	1989	1990
Total GDP (Ybn)	398,693.3	429,028.6
Real GDP growth[1]	+4.7	+5.6
Components of GDP (%)		
Private consumption	57.3	56.7
Gross fixed investment	30.7	32.3
Stockbuilding	0.8	+0.6
Government consumption	9.1	8.9
Exports	14.3	15.0
Imports	−12.2	−13.6
Consumer prices[1]	+2.3	+3.1
Unit labour costs[1]	+0.0	+2.1
Industrial wage rates[1]	+5.8	+5.4
Industrial production[1]	+6.2	+4.5
Unemployment rate[2]	2.3	2.1
Reserves minus gold ($bn)	83.957	78.501
Narrow money growth (% pa)	+4.5	3.2
Broad money growth (% pa)	+10.0	+11.5
Discount rate (% pa, year end)	4.25	6.00
Govt bond yield (% pa, avg)	5.05	6.36
FTA Share price index[3]	+18.6	−40.4
Current account balance ($bn)	*57.64*	*36.17*
Exports ($bn)	270.39	280.13
Imports ($bn)	192.97	216.34
Trade balance ($bn)	77.42	63.79
Main trading partners[4]	Exports	Imports
US	31.7	22.5
West Germany	6.2	6.2
France	2.1	2.1
UK	3.8	3.8
Hong Kong	4.6	0.9
Singapore	3.7	1.5
EC	18.8	15.0

Notes: 1 Annual percentage change over previous year. 2 Unemployment rate as a percentage of the labour force. 3 Percentage change on December 31 over same day in previous year. 4 The percentage shares of trade in 1990

Sources: IMF, Datastream, Economist Intelligence Unit



FINANCIAL TIMES
COMPANIES & MARKETS
Monday July 15 1991

INSIDE

S&P suspends US insurer's ratings

Standard & Poor's, the large US rating agency, has suspended its ratings on Mutual Benefit Life Insurance, the New Jersey-based life company which ran into problems with its hefty property portfolio. Page 19

Mitsubishi stakes a claim

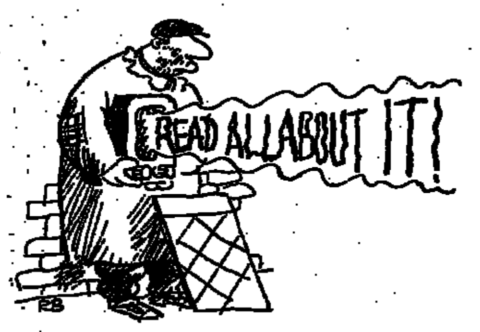
MITSUBISHI

Mitsubishi, Japan's biggest trading corporation, is buying an interest in the Iron Ore Company of Canada (IOC) for $66m. Mitsubishi will acquire a 20 per cent interest in IOC and a 50 per cent interest in the Sales Agency Right of IOC, which handles ore sales, from M.A. Hanna of the US, which retains an 8.14 per cent IOC stake. Page 19

Japanese bonds on hold

Japanese bond markets, which have so far failed to react to the share scandal which crippled the stock market, went on hold last week ahead of the four-day suspension from today of the Big Four brokerages - Nomura, Daiwa, Nikko and Yamaichi. Emiko Terazono reports. Page 20

Tuning into tabloid radio



Britain's first "tabloid radio" moves a step closer this week when First National Radio, the consortium heading the new station, begins raising the £16m ($25.6m) needed to launch it. The new national commercial station says it will look at "the tabloid world of entertainment, show business and the royal family" in between music. Page 19

Market Statistics

Base lending rates	27	Managed fund service	23-27
Euromarket turnover	21	Money markets	27
FT-A World Indices	27	New int bond issues	21
FT/AIBD int bond svce	20	NRI Tokyo bond index	19
Foreign exchanges	27	US money market rates	20
London recent issues	27	US bond prices/yields	20
London share service	27-29	World stock mkt indices	22

Companies in this issue

Akzo	19	KHD	19
Alcoa	19	La Seda	19
CPU Computers	18	Magnetic Materials	18
C'wealth Bank Aust.	19	Mitsubishi	19
Etam	18	Mutual Benefit Life	19
European Leisure	18	Philips	19
Explaura	18	Ramar Textiles	18
First National Radio	18	Sarasin et Cie	19
Gartmore Inv Mngmt	18	Super Club	19
Heywood Williams	18	TT Group	18
IOC	19	Telecom NZ	19
Invicta Sound	18	Thurgar Bardex	18
		US Smaller Cos	18

Usinor strives for technological edge

By Charles Leadbeater, Industrial Editor, in London

EUROPE'S largest steelmaker, Usinor Sacilor of France, has begun trial production using technology which could transform the industry's economics.

The state-owned group is making steel at a pilot plant at Isbergues, northern France, using a technology known as thin-strip casting. It could give Usinor an important technological lead among European steel producers as they seek to cut costs by simplifying and integrating the many steps in the traditional steelmaking process.

Usinor estimates it is about two years behind Nippon Steel of Japan in developing thin-strip casting. However, it is the first European steelmaker to develop the technique sufficiently to make significant quantities of steel.

Thin-strip casting would lower the cost of entry into mainstream steelmaking by eliminating many of the activities in steel production.

In traditional steelmaking, liquid steel is cast into thick ingots or slabs which are then reheated to be rolled through powerful mills. These mills, sometimes up to half a mile long, reduce the steel from a slab to a thin strip which can be used to make domestic appliances or cars.

Thin-strip casting would allow liquid steel to be cast directly into a usable thin sheet, eliminating the expensive and time-consuming processes of reheating and rolling. The technique could also reduce costs by wasting less liquid steel.

The Isbergues development is the product of Usinor's wide-ranging technical collaboration with Thyssen, the largest German steelmaker.

A Thyssen pilot plant in Germany is developing a related technique, thin-slab casting, which is a less radical break with traditional steelmaking. According to the French group, Thyssen's technology for thin-slab casting was more advanced than that used by Nucor, the innovative US mini-mill, which has pioneered the commercial application of the technique.

Mr Francis Mer, Usinor's president, said that the downturn in European steel demand would force the group into more closures and rationalisation of uneconomic plants.

Mr Mer said Usinor planned productivity gains over the next three years, which would reduce unit costs by at least 10 per cent a year.

He said the downturn was not a crisis, but would accelerate the need to rationalise Usinor's plants, which make long steel products used by railways and the construction industry.

In the long run, savings could be made by rationalising Usinor's long products operations in France and those it acquired in Germany through the purchase of Saarstahl, he said.

Mr Mer said Usinor's string of acquisitions in Europe and the US in the past couple of years had come to an end for the time being. Talks with LTV, the US steelmaker, over the purchase of a minority stake were frozen, he said.

Hanson targets ICI drugs division

By Robert Peston in London

HANSON, the UK-based conglomerate, is pressing to acquire a £2bn ($3.2bn) stake in Imperial Chemical Industries' pharmaceutical subsidiary as part of its strategy to increase the value of Britain's biggest chemicals group.

Advisers to Lord Hanson, chairman, say he would like to take a 40 per cent stake in the pharmaceutical operation. They argue that there would be two main benefits to ICI:

- A price would be put on the pharmaceuticals division, which should lead to an increase in the stock market value of ICI.

This would address ICI's long-running problem that its market capitalisation has not fully reflected the combined value of its constituent parts.

- Hanson would also guarantee sufficient financial backing to ICI Pharmaceuticals to turn it into a world leader.

ICI's profits from this sector have grown rapidly, to a peak of £489m in 1990, but it lags behind the world's biggest drug companies, such as Glaxo and Merck.

However, Hanson would not form an exclusive relationship with ICI Pharmaceuticals. Another company from the drug industry would probably be invited to join the venture.

When Lord Hanson met Sir Denys Henderson, ICI's chairman, in May, shortly after Hanson bought a 2.8 per cent stake in ICI, he made proposals to increase the value of ICI, according to his advisers. One was a joint venture between Hanson and ICI Pharmaceuticals.

ICI has not responded, but said yesterday it received no firm proposals at the meeting.

Hanson will argue that ICI is failing its shareholders if it refuses to debate the proposal.

ICI has admitted that it wants to merge ICI Pharmaceuticals with another drug company and Hanson wants to know why its resources should not be made available to such a partnership.

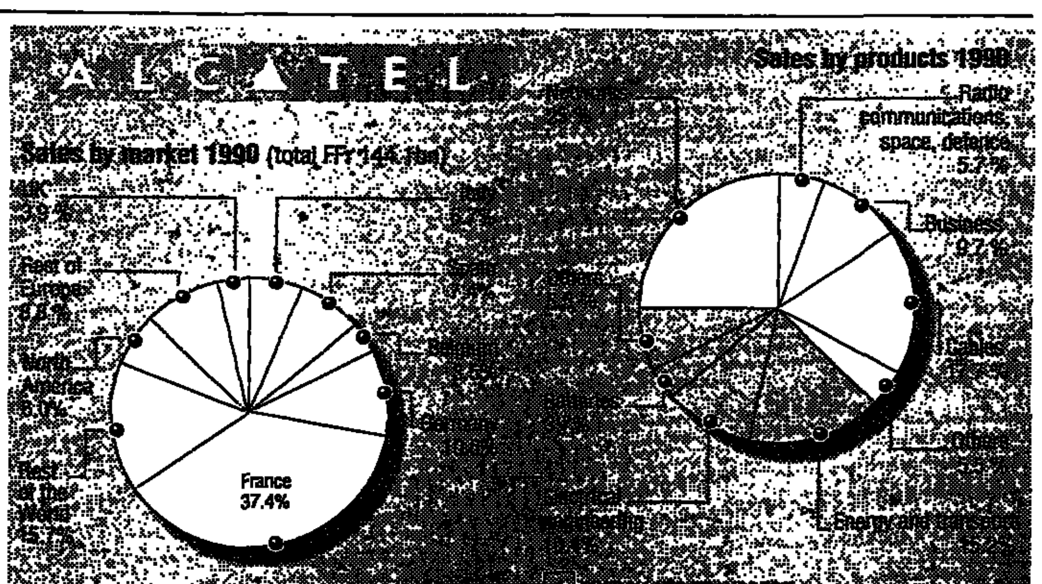
Lord Hanson has become concerned at the absence of debate on whether ICI is being managed efficiently. He has been forced on to the defensive, as ICI has raised questions about Hanson's management style and low tax charge.

ICI is reorganising its operations, at a cost of £300m, to cope with slower economic growth.

Lord Hanson wants to hear further details of these plans promised in the half-year results statement expected on July 25, before taking any further steps.

Tipping the scales of US telecoms

William Dawkins on Alcatel's purchase of a Rockwell unit



Alcatel, Europe's largest supplier of telecommunications equipment, has been criticised by securities analysts for being under-represented in the US and underweight in the profitable market for electronic transmission equipment.

Now the French-owned company has substantially corrected both weaknesses. The group beat 11 other telecommunications equipment groups to land for $625m the transmission equipment division of Rockwell International Corporation, the US electronics, aerospace and automotive conglomerate.

As a result, Alcatel becomes number two in the US transmission equipment industry, with a 15 per cent share of a market estimated by Alcatel to be worth $5.5bn.

US demand for line transmission equipment is growing at an estimated 10 per cent annually, twice the world average. Rockwell, for which transmission systems form a tiny part of its $12bn annual sales, announced that the unit was up for sale in April and expects to complete the deal by the end of September.

Alcatel is already number two in the US market for telecommunications cables, where it recently strengthened its position with the acquisition of Canada Wire.

But Alcatel officials say this is a relatively slow-growing market and does not necessarily guarantee access to transmission equipment orders.

Mr Jozef Cornu, Alcatel's executive vice president, says: "For us the cable business is certainly a good thing and gives us access to excellent contacts in the US. But it is very far removed from the equipment market."

Mrs Angela Dean, European technology analyst for Morgan Stanley in London, argues that the deal is the latest example of how several leading telecommunications groups are attempting to increase their exposure to the transmission market in response to the slowdown in growth in telephone operators' demand for public exchanges.

Alcatel officials say that public operators are tending to turn to transmission equipment as a quicker and cheaper way of modernising their service, as they wait for the next generation of public exchanges to come of age.

Alcatel already has a 4 per cent share in the US transmission equipment market through North Carolina-based Alcatel Systems US, but this is out of line with its 29 per cent share of the European Community market for telecommunications equipment generally.

Its US position in transmission equipment is a legacy of Alcatel's 1987 merger with most of the telecommunications operations of ITT, the US conglomerate which holds a 30 per cent stake in the company and has a seat on the supervisory board.

The remaining 70 per cent of Dutch-registered Alcatel is held by Alcatel Alsthom, the French telecommunications, transport and energy giant.

The Rockwell deal, handled by the US investment bank Dillon Read, adds a business with $439m of sales last year and 11 per cent of the market, to the $136m turnover reported by Alcatel Systems US in 1990.

Rockwell's transmission systems division, which employs 3,500 people in three plants in Texas and one in Mexico, made a pre-tax profit of $44m last year. It devotes three quarters of its sales to cable transmission, the fastest-growing area of the market, with the remainder to microwave transmission equipment, where growth is slower but where Alcatel calculates there is less competition.

Yet even after this leap in scale, Alcatel remains a small US player by comparison with the US telecommunications giant, American Telephone & Telegraph (AT&T), which has a 58 per cent share of the transmission market there.

However, the French company will overtake Northern Telecom of Canada, which has an 8 per cent transmission equipment market share, and NEC, the Japanese electronics giant, which holds 6 per cent of US sales.

For Alcatel, the immediate attraction of the acquisition is to provide a US distribution network for its latest range of transmission equipment, based on a world standard called Sonet (synchronous optical network). This allows users to transmit voice, data and pictures along a single telephone line.

Alcatel's Sonet-based equipment is more advanced than Rockwell's.

An Alcatel spokeswoman said: "We had always said that we didn't want to enter the US market with the existing range of products. Sonet gives us a technological window...Rockwell gives us a good way to increase our impact in transmissions, which is the only area of the US telecommunications market which is evolving."

Mr Pierre Suard, Alcatel Alsthom's chairman, has been keen to build up the group's telecommunications businesses ever since the ITT deal.

Telecommunications is the group's largest single profit earner, producing 76 per cent of the group's FFr12.55bn operating profit last year and 64 per cent of its overall FFr144.1bn turnover in 1990.

Alcatel Alsthom's most recent big step in that direction was last October's complex exchange of assets with Fiat, the car maker, which gave Alcatel control of Telettra, the Italian group's telecommunications business. That placed Alcatel second in the world cable transmission market after AT&T and brought it level with NEC as joint world leader in microwave transmissions.

Telettra allowed Alcatel to increase market share just where it was weak, in transmission equipment in Italy and Spain. The Rockwell deal allows Alcatel to fill in another large patch on its world map.

Economics Notebook

A long wait for the golden age of globalisation

Welcome to the global groupies' ball.

If one thing is certain ahead of today's start of the 17th economic summit of the world's leading industrialised nations, it is that the event will be hailed as evidence of ever-increasing globalisation, internationalisation and interdependence.

The presence in London of heads of government and foreign and finance ministers from the Group of Seven countries; the participation in the talks of a European Community delegation, and the arrival on Wednesday of President Mikhail Gorbachev and his entourage appear to be convincing enough proof that the world is now a global village.

At a less elevated status, the jumbo jet, modern telecommunications technology and financial liberalisation have turned cross-border business and tourism into such routine matters that it seems only right to talk of a new era in international economic integration.

But is it? Not really, says Mr David Henderson, head of the Organisation for Economic Co-operation and Development's economics and statistics department.

When presenting the latest OECD Economic Outlook earlier this month, he asserted that "the world economy in July 1991 is clearly further away from full integration than it was in July 1914".

Mr Henderson argues that there was much more free trade, free capital movement, free migration and travel in the world of July 1914 than the world of today.

And Mr Henderson can invoke at least one distinguished observer from that time to support his thesis. Immediately after the First World War, John Maynard Keynes looked back in awe and with regret at a world in which the internationalisation of social and economic life "was almost complete".

It is worth quoting Keynes's description of the pre-1914 world at some length. "What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914!" wrote Keynes in his "Economic Consequences of the Peace", published in 1919.

"The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery on his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend.

"He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country and climate without passport or other formality, could dispatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous and avoidable."

Thanks to the post-Second World War multilateral trading system and a decade of financial deregulation, some parts of Keynes's description of the globalised economy that was destroyed by the First World War will seem familiar enough. A few – notably the thought of sending one's servant on an errand to the local NatWest – must appear aberrant to all but the most privileged. But on Keynes's evidence, the world has yet to catch up with the conditions of 77 years ago, as anybody setting off abroad with just a bag of coins and no passport would soon discover.

In some respects, recent history has seen slippage from rather than progress to a fully interdependent world economy. This Mr Henderson says is one in which markets for goods and services are unified and there is absolutely no discrimination against foreigners. Indeed, according to Mr Henderson:

- Only Australia, Japan, New Zealand and Turkey among the OECD's 24 industrialised member states ended the 1980s with trade regimes that were more liberal than at the beginning.
- Financial markets outside the OECD area have yet to be liberalised in the same way as those in the industrialised world.
- In almost all countries, private direct investment is a long way from being treated on a fully non-discriminatory basis.
- International migration is heavily controlled almost everywhere, as is internal migration in some parts of the world.

An optimist would say that these shortcomings on the path to globalisation simply illustrate what scope exists for further economic integration and the economic growth that is associated with it.

If market forces or governments continue to press against barriers and succeed in dismantling them, the way is open for better economic performance and increased shared prosperity.

However, there are sufficient problems on the current international agenda to suggest that such progress is far from inevitable.

Nationalism is emerging as a potential threat to the globalised economy. The current crisis in Yugoslavia and the strains between the central and state authorities in the Soviet Union are just the most prominent examples.

Technology which has acted as a midwife to the interdependent world economy is also causing economic performance among nations and regions to diverge. In particular, the gulf between industrialised and developing countries is widening.

In addition, pressure is growing for immigration from the poor developing world to the rich industrialised countries. Economics and experience teach that immigration into the rich countries would increase global wealth. But politics could well determine otherwise.

Undoubtedly, the presence in London this week of politicians representing more than two thirds of the earth's gross national product is striking testimony to the idea of the global village. But it could just as easily be that the historic meeting of the G7 with Mr Gorbachev marks no more than a temporary high point in the history of global interdependence and that we may have to wait another 77 years to achieve a golden age similar to that described by Keynes.

Peter Norman

Property groups may merge

By Clare Pearson in London

ROSEHAUGH and Stanhope, two UK property companies with much of their assets in a joint company, will confirm to the London stock exchange today that they are in merger negotiations.

Talks have begun amid market concern about the financial position of Rosehaugh, where the share price has fallen sharply in recent months.

Terms of any deal would be expected to reflect the stronger position of Stanhope, although it has also been hit by the depressed property market.

Olympia & York, the Canadian property group building Canary Wharf in London's Docklands, owns 32 per cent of Stanhope and 9 per cent of Rosehaugh. It is thought to favour a merger.

The fortunes of the pair are linked through their joint company, Rosehaugh Stanhope Developments, which owns Broadgate in the City of London, their biggest asset.

Share prices of both have been hit by worries about the development, where a sale has yet to be announced.

A key question in the negotiations is the longer-term role of Mr Godfrey Bradman, Rosehaugh's chairman.

The association between the two companies has sparked clashes between Mr Bradman and Mr Stuart Lipton, chairman of Stanhope.

As of June 1990, Rosehaugh Stanhope Developments had gross assets of £1.7bn ($2.7bn) of which £1.4bn was investments and £300m developments.

At the interim stage, Rosehaugh reported a loss before tax of £50m, after a £39.2m write-down of trading properties and £13.9m for RSD. Stanhope reported a loss of £33.8m.

Etam gets support from Gartmore

By Antonia Sharpe

GARTMORE Investment Management is supporting the directors of Etam, the women's clothing retailer, in their attempt to fend off a hostile bid from the South African-controlled Oceana Investment Corporation.

This was revealed yesterday by Lazard Brothers, Etam's advisers.

Etam's defence document, issued on Saturday, showed Gartmore with a 12.71 per cent stake. Etam's directors have also resolved to reject Oceana's offer in respect of their own beneficial holdings amounting to 10.2 per cent.

Other institutional and private shareholders, including directors' families, have also stated that they intend to reject the offer, bringing the total to 33.9 per cent. Mr John Dear, managing director at Lazard, said two other institutional shareholders, Postel Investment Management with 1.79 per cent, and Schroder Investment Management, with 4.78 per cent, had not yet disclosed their intentions.

Oceana, a holding company for the overseas interests of the Lewis family which runs the Foschini store chain in South Africa, has a 29.2 per cent stake in Etam and is offering 185p for the rest, valuing Etam at £121m. The price was set in a recent tender offer and will not be raised. Oceana's offer closes on July 25.

In the defence document, Etam's directors reject Oceana's claim that Etam failed to justify more than £75m of capital spending in the last three years. The directors say the investment was spent on increasing retail space from 337,000 to 853,000 sq ft, the acquisitions of the fashion chains Snob and Peter Brown, the development of new Etam brands and the building of a new distribution centre.

Etam shares closed unchanged at 181p on Friday.

NEWS DIGEST

Ramar £6m in red after exceptionals

IN conjunction with a proposed reconstruction, Ramar Textiles has issued results for the nine months ended March 28 1991 showing a loss of £5.84m after exceptional charges of £6.05m.

Mr Colin Radin, chairman, said the reconstruction included refocusing the company's main activity as a supplier to Marks and Spencer, disposing of the wholesale/mail order division, strengthening the main board, and injecting substantial equity capital.

A further statement would be made as soon as possible.

In the period operating profit of continuing business was £1.25m, against £1.63m in the 13 months to end-June 1990, while the wholesale/mail order division incurred a loss of £47,000 (profit £169,000). Overall turnover came to £15.9m (£21.9m).

Mr Radin explained that it was decided to substantially reduce production capacity in the north of England and cut bank borrowing; that led to an extensive stock clearing and provision programme which cost £4.82m and was included in exceptionals.

There were also costs for redundancies £408,000, fire claim £501,000, and sundries £316,000.

Fully diluted losses per share were 35.7p (earnings 4.6p). The preference dividend for six months ended June 1991 is passed.

US Smaller Cos heads for market

The US Smaller Companies Investment Trust is seeking to join the stock market via a £20m placing by Smith New Court and County NatWest WoodMac, in the latest sign of renewed activity in the investment trust sector.

The trust will be managed by the Boston-based Wellington Management International, which is being appointed on a six month contract and will take a fee of 0.8 per cent of assets.

Ordinary shares will be issued at 100p each, with warrants attached. Shareholders will be entitled to vote on the winding-up of the trust after three years.

US smaller companies had a long period of underperformance in the 1980s but have made a strong revival this year, with the short term unit trust performance tables largely led by US smaller company funds.

Only £9,000 profit for CPU Computers

CPU Computers, the USM-quoted distributor of peripheral equipment, made pre-tax profits of only £9,000 in 1990, in line with the warning given in May.

And the directors said the outlook for the current year was poor. The group would be in loss for the opening half essentially because of trading difficulties in the German operation.

The year's profit compared with £534,000 in 1989, and was made on turnover of £74.7m (£60.5m). Gross profit came to £11.6m (£9.18m) but operating costs shot up to £10.3m (£7.72m) and interest charges to £1.35m (£933,000).

There were losses per share of 0.46p (earnings 1.23p) and the dividend is omitted (0.62p).

Invicta runs up £240,000 loss

Invicta Sound, the Kent-based radio and television services company, incurred a pre-tax loss of £240,000 for the half year ended March 31.

The loss, which compared with previous profits of £97,000, was struck from a turnover of £1.78m (£1.97m) and after taking account of exceptional provisions of £183,000 (£20,000). Advertising income fell by 9 per cent.

Losses per share emerged at 2.16p (earnings 0.66p). The company's shares are traded on the USM.

DIVIDENDS ANNOUNCED

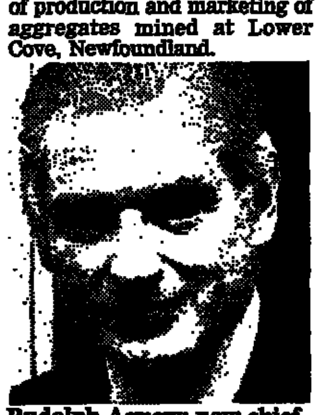
	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
BB & EA ....fin	nil	-	1.5	0.5	2.5
Christie Gp ....fin	nil	-	1.4	nil	2.8
CPU Computers § ...fin	nil	-	0.62	nil	0.62
Fleming American....int	0.5	Aug 12	0.5	-	1.75
Pepe Group ....fin	1.5	Oct 1	4	4	6.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock.

Explaura makes £4m cash call

EXPLAURA, the limestone-quarrying group, is raising £3.8m net in a 1-for-4 underwritten rights issue at 14p. Before the announcement the share price was 17p.

Explaura also announced a strengthening of its management, with the appointment of Mr Rudolph Agnew as chairman and Mr David Singleton as managing director. They are joint chairmen of Federated Aggregates, which has entered into a two-year agreement to advise Explaura on all aspects of production and marketing of aggregates mined at Lower Cove, Newfoundland.



Rudolph Agnew: new chief

The cash will be used to establish shipping terminals on some of the major East coast cities in the US, funding additional freight costs, and further development of limestone deposits at Lower Cove.

This year the group had operated at a significant loss and expected disappointing 1991 results. However, a higher level of activity already apparent was expected to continue.

TT fails in its attempt to buy MMG

By Jane Fuller

TT GROUP, the industrial holding company, has failed in its £9.9m bid for Magnetic Materials Group, the USM-quoted maker of magnetic components.

By Saturday's closing date, TT controlled just over 38 per cent of the equity. Its cash offer of 54p per share compared with MMG's Friday closing price of 57p. There was also a 4-for-10 share alternative.

Mr Nicholas Shipp, a director, said TT had known that MMG would be a hard nut to crack because 44 per cent of the equity was held by the Michaelis family, including the 90-year-old non-executive chairman Mr Eduard Michaelis, and by directors. It had won two-thirds of the other equity, mostly from institutions.

"We will be breathing down the necks of the MMG management," he said.

Mr John Emanuel, MMG's chief executive, said: "Our arguments have held up well. TT was trying to buy the group on the cheap."

Euro Leisure sees slight improvement

European Leisure, the largest nightclub operator in the UK, said that trading conditions had improved slightly since it reported interim results last March, writes David Churchill.

The statement followed a sharp fall in the share price from 9p to 6p late last week after 10m shares, or 8 per cent of the equity, were sold. They closed 2p higher at 8p on Friday.

European's management said it believed it was the subject of a "baseless campaign" from a former director and shareholder with whom it had a number of disputes outstanding.

There is understood to be pressure from dissident shareholders for an extraordinary meeting, although such a meeting has yet to be called.

First National Radio embarks on £16m cash raising

By Jane Fuller

FIRST National Radio, the consortium which raised eyebrows with the size of its successful bid for the UK's first commercial national radio station, will this week embark upon the task of raising the £16m required to launch it.

In seeking support it will emphasise its determinedly low-brow vision of "tabloid radio". Mr Clive Lindley, a director of FNR, says the new Showtime station will look at "the tabloid world of entertainment, show business and the royal family" in the 25 per cent of airtime devoted to speech between the easy listening-style music.

The menu will include the proven chat show ingredients of "a famous name interviewing famous names."

Some figures have emerged as FNR embarks on a five-week campaign to secure £16m of equity investment.

Broadcasting is due to start next spring, with Chiltern carrying out most of it – under a contract worth perhaps £1.5m a year – from its Milton Keynes studios. A studio in London will cater for the "big names".

The marketing budget is £4m for the lead-up and first full year and £2m for the second year. Building 22 transmitters to reach most of the UK's 46m over-15s will cost about £4m. The target market is the 35 to 55-year-olds currently listening to BBC Radio Two.

Advertising revenue is estimated at £5.5m in year one. Radio Clyde, which led a rival bid but offered the Treasury only a fraction of FNR's £1.75m a year payment, was reckoning on £7.5m. In year two, both estimate £10m.

FNR does not expect to make a profit until year three – after the marketing bulge – and it believes the break-even revenue figure to be £11m. By year six, Mr Lindley is looking for £40m revenue, not much more than Capital Radio brought in last year from its two London stations.

Government takes 4 per cent of revenue, as well as the fee of £1.75m a year plus inflation. The Radio Authority gets £1m and another slice goes to copyright organisations.

Heywood Williams has 26.9% of Thurgar

By Andrew Bolger

HEYWOOD WILLIAMS, the UK's largest glass distributor, claims it speaks for 26.98 per cent of Thurgar Bardex, the Kettering-based manufacturer of windows, doors and other plastic products.

Heywood launched its £8.6m hostile offer for Thurgar on July 6, saying it had irrevocable acceptances for the 17.7 per cent stake in Thurgar owned by the Nye family trusts of which Mr Cliff Nye, Thurgar's chief executive, was a director.

Thurgar, which suspended Mr Nye as chief executive on July 8, dismissed him from that post and from the board on Friday. It said it had appointed Mr Martin Tarran-Jones as chief executive with immediate effect.

Heywood lifted its stake to 26.9 per cent after buying 815,000 shares at 40p each from an institutional investor and a private individual.

Terms of the offer are one new share and 160p in cash for every 10 Thurgar shares, valuing each Thurgar share at 41.3p against 42p in the market.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Guinness (UK)	Glenmore Distilleries (US)	Drinks	£101m	Guinness expands spirits portfolio
ICI (UK)	Continental Polymers (US)	Polymers	n/a	First acquisition in restructuring
Volkswagen (Germany)/ Ching Fong Investment (Taiwan)	Ching Chung Motor (JV)	Commercial vehicles	£68m	VW furthers Asian strategy
Alcatel (France)	Unit of Rockwell Intl (US)	Telecoms equipment	£379m	Will make Alcatel US no.2
Laporte (UK)	Southern Clay Products (US)	Clay Products	£18.4m	EEC completes disposals
Pacific Construction (Taiwan)	International Tak Cheung (Hong Kong)	Construction	£13m	Pacific takes 34.5%
ECsoft (Scandinavia)	Synapse (UK)	Computer Services	£5.8m	Agreed bid
Sandoz (Switzerland)	Dietetique et Sante (France)	Dietary products	n/a	Rhone-Poulenc non-core sale
Hutchison Telecommunications (Hong Kong)	Microtel Communications (UK)	Mobile telecoms	n/a	Hitchison completes rapid expansion
Lancer Boss (UK)	Hyco (Italy)	Truck manufacture	n/a	Boss takes 60%

Source: FT Mergers & Acquisitions International

Rating for US insurer suspended by S&P

By Nikki Tait in New York

STANDARD & Poor's, one of the large rating agencies, has suspended its ratings on Mutual Benefit Life Insurance, the New Jersey-based life company which has run into problems with its hefty property portfolio.

S&P said it had made the move because neither the company nor the state insurance department would reveal whether regulators planned to seize the ailing insurer.

Mutual Benefit's problems came to light this year. It held unsuccessful talks with Metropolitan Life over a possible cash infusion, and has also mooted plans to sell some businesses and raise capital.

Last week, it announced that it was shedding about 30 per cent of its headquarters staff in an attempt to cut costs.

Mutual Benefit has assets of $13bn and 400,000 US policyholders, making it a significant US insurer although not among the top players. The company had heavy losses on its real estate investments last year and, if seized, would add to a growing list of US insurance companies which have suffered regulatory intervention recently.

In California, Executive Life and First Capital have come under the regulators' control, as has Executive Life of New York and Monarch Life in Massachusetts.

According to US press reports, New Jersey state officials are preparing to seize control of Mutual Benefit. They quote senior officials as saying they expected the company to make an early formal request for state intervention.

Bank in Soffex link

SARASIN et Cie, a Basle-based private bank, has taken a substantial stake in QT Optec, a market-maker on the Swiss Options and Financial Futures Exchange (Soffex), Reuter reports from Zurich.

Sarasin said that the stake, of just less than 50 per cent, would allow the bank to increase its business in the derivatives trade.

Philips to put cash into video arm

By Ronald van de Krol in Amsterdam

PHILIPS, the Dutch electronics group, is poised to inject at least BFr3.5bn ($95m) into Super Club, its 51 per cent-owned, loss-making Belgian video rental company. The move is part of a capital increase to shore up the Belgian company's equity.

Super Club, which published details of big 1990-1991 losses on Friday, said the capital increase and "possible additional measures" were designed to raise between BFr7bn and BFr7.5bn to replenish negative shareholders' equity.

The injection of fresh capital marks the second time in four months that Philips has had to come to the aid of its debt-laden associate company.

Philips has promised to take up all the shares to which it is entitled, implying a minimum investment of BFr3.5bn. It will also underwrite the rest of the capital increase if other shareholders decline to take part.

If Philips were forced to take up the entire share issue, its stake in Super Club could rise to as much as 75 per cent, depending on the terms of the capital increase. Details of the capital-raising exercise are expected soon.

In March, Philips took control of Super Club by injecting BFr4bn in fresh funds and enlarging its stake from 12 per cent to 51 per cent.

Philips' increasing involvement in Super Club comes when the Dutch company itself is battling to reduce costs and return to profitability.

Philips says its participation in Super Club gives it access to the market for video "software", complementing and reinforcing its role as an important supplier of video cassette players.

Super Club, which operates video rental outlets in the US and Europe, posted a loss of BFr14.7bn in the year ended March 31, on turnover of BFr16.4bn.

It said that about 60 per cent of the loss was due to restructuring costs, one-off depreciations and changes in its accounting system, particularly in intangible items.

Philips said the full extent of Super Club's losses had not come as a surprise. Philips forecast that Super Club would narrow its losses in the current year and would see a recovery in results from normal business operations.

After writing off the 1990-91 loss and BFr3.7bn in goodwill, Super Club's equity stood at a negative BFr6bn at the end of 1990-91.

The fast-growing company, established in 1983, accumulated debt as it expanded by acquisition in the late 1980s.

Commonwealth Bank float strongly backed

THE A$1.29bn (US$980m) public flotation of the government-owned Commonwealth Bank in Australia has received strong support from institutions and stockbrokers, who have committed themselves to underwriting the issue, Reuter reports from Sydney.

"The institutions have committed themselves to up to 55 per cent of the issue and the brokers have committed themselves to up to 25 per cent. So, on that basis alone the issue was a success," said lead manager JB Were and Son.

The government is selling to the public 239.3m new shares, or about 30 per cent of the bank's capital, at A$5.40 each. Underwriting commitments for the issue closed on Friday.

In addition to the public issue, the bank is offering a further 9m shares to its employees at A$4.86 each, bringing the total issued capital to A$1.67bn.

Overseas investors are barred from subscribing to the shares, and no one shareholder other than the government may own more than 5 per cent.

Also, 56 per cent of the new shares will be offered to the general public in parcels of a minimum 400 shares.

● The public issue in Telecom New Zealand, the biggest offering by a New Zealand-based company, is likely to be oversubscribed in its home country, according to lead manager Fay Richwhite, Reuter reports from Auckland.

Mr Stuart Johnstone, investment banking manager, said: "It is apparent that the issue will be oversubscribed. There is more demand there than shares available."

The 140m shares offered in New Zealand are part of 420m being sold by owners Ameritech and Bell Atlantic, two of the big US regional telephone companies.

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 11/07/91	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	156.01	7.14	155.82	154.1	151.52
Government Bonds	153.50	7.00	153.35	152.01	149.48
Municipal Bonds	157.85	7.25	157.65	155.77	153.88
Govt.-guaranteed Bonds	160.72	7.29	160.53	158.57	156.20
Bank Debentures	153.18	7.19	152.94	151.11	148.60
Corporate Bonds	159.52	7.34	159.31	156.65	152.97
Yen-denom. Foreign Bonds	165.33	7.67	165.09	161.20	156.68
Government 10-year†	6.71	-	6.69	6.57	6.53

† Estimated par yield

Source: Nomura Research Institute

Banks seek to break deadlock on La Seda

THE 12 creditor banks of La Seda de Barcelona, the loss-making Spanish textiles company, have made a counter-proposal aimed at breaking the deadlock with the company's majority shareholder, Dutch chemicals group Akzo, Reuter reports from Madrid.

The bank creditors, co-ordinated by Bank of America, met on Friday to discuss the stalemate that ensued when they rejected an Akzo proposal that they take over its 57.5 per cent shareholding in La Seda, and write off the textiles company's borrowings by Pta7.5bn ($65.2m).

La Seda said the banks' proposal had been made with a view to re-entering talks with the Dutch company's directors, headed by Mr Aarnout Loudon, its chairman.

The situation at La Seda was aggravated after a supervisory board meeting at which three directors resigned, leaving the company in a legal vacuum.

Akzo said its plans to place its stake in La Seda would not be affected, but admitted there was a total deadlock that would continue until an extraordinary shareholders' meeting could be organised.

It was not known what the new bank proposals contained, or whether there was a deadline for replying. There was no confirmation that they involved unfreezing credit lines to La Seda to facilitate placing Akzo's participation.

Aarnout Loudon: heading talks with La Seda

La Seda is a large employer in the Barcelona region, and its potential demise in the event of Akzo not finding a compromise arrangement with creditor banks has triggered a political controversy.

Akzo said on Friday that, in the absence of a deal with La Seda's creditor banks, it would be prepared to transfer its shareholding to a third party.

The Dutch group said it had reached an agreement in principle for a group of unnamed Spanish investors to take over Akzo's 57.5 per cent stake in La Seda.

Mitsubishi to buy 20% of Canadian iron ore group

By Steven Butler in Tokyo

MITSUBISHI, Japan's biggest trading corporation, has agreed to buy an interest in the Iron Ore Company of Canada (IOC) for $66m.

Mitsubishi will acquire a 20 per cent interest in IOC and a 50 per cent interest in the sales agency right of IOC, which handles ore sales, from M.A. Hanna Co of the US. Hanna retains an 8.14 per cent stake in IOC.

Other investors in IOC include Bethlehem Steel (34.52 per cent) and National Steel (19.96 per cent).

Mitsubishi said it was acquiring the stake to broaden its activities in iron ore trading to include management and sales at an iron ore-producing company.

Mitsubishi has previously invested in iron ore development projects, including the Savage River Project in Australia, although this investment ended last year.

Hanna will continue to manage the operation of IOC, while sales will be conducted through a joint venture established by Hanna and Mitsubishi.

IOC has a mine in Newfoundland and loading facilities in Quebec. The company produces 16m tonnes of iron ore yearly, 2.4m tonnes of which were imported to Japan last year out of Japan's total imports of 117m tonnes.

Mitsubishi trades about 18m tonnes of iron ore each year. The agreement is subject to regulatory approvals and other conditions.

Profits halved at Alcoa

By Nikki Tait

PROFITS fell by 50 per cent at Aluminum Company of America (Alcoa) in the second quarter of 1991, largely as a result of price falls for a range of products.

In the three-month period, Alcoa, the world's largest aluminium producer, made $81.2m after tax, down from $161.9m in the same period a year earlier.

Revenues eased from $2.74bn to $2.6bn. Alcoa said prices for alumina were down by 25 per cent, which dented the contribution from Alcoa of Australia, the biggest producer of aluminium. The company was also hit by falling prices for many fabricated products, especially those used in the construction market, and for aluminium ingot.

The second-quarter figures included favourable exchange adjustments amounting to $8.3m, compared with gains of $9.9m a year ago.

Threat to KHD sales goal

KLOECKNER-Humboldt-Deutz, the German engineering group, may not meet its goal of increasing group sales by 5 per cent this year from the DM4.06bn ($2.2bn) of 1990, Reuter reports from Cologne.

At its annual meeting, KHD said group sales were 2 per cent down in the first five months of 1991, after rising by 1 per cent to DM1.17bn in the first four months.

KHD said it was concerned about political unrest in Algeria, where the group is active. Developments there would determine if the 1991 group sales goal was met.

The company said it expected flat 1991 profits, after reversing losses into a group net profit of DM30m in 1990.

However, it noted that incoming orders were continuing to decline. Orders on hand reached DM2bn in the first five months, a rise of 6 per cent from the start of the year.

Foreign turnover fell 14 per cent in the period, while the plant construction sector reported a sales rise of 25 per cent.

KHD plans to close its Spanish unit Cia de Motores Deutz.

Insurers' credit ratings cut

STANDARD & Poor's, the US credit-rating agency, has downgraded the ratings for claim-paying ability of some leading UK insurers, amid fears that competitive insurance rates and unpredictable equity markets will further dampen profitability, writes Richard Lapper.

Sun Alliance's rating has been cut from triple A to double A plus; General Accident's, Eagle Star's and Legal & General's (general insurance and shareholders' fund) fall from double A plus to double A; and Royal Insurance and its Royal Re subsidiary slip from double A to double A minus.

UK GILTS

Inflation signs give traders hope

GILT yields continued to move downwards last week, with the market taking heart from prospects for lower UK inflation during the next year.

However, there were some signs that the buoyancy in the market two weeks ago had started to disappear, with some gilt practitioners depressed by the worse-than-expected figures for retail price inflation announced on Friday.

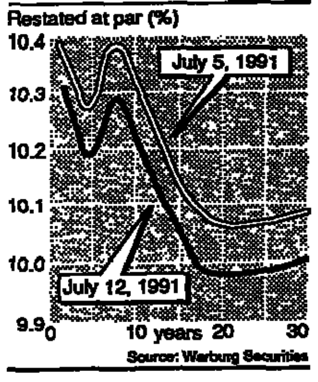
Although gilt prices generally ended the week on a hopeful note, there was some selling out of UK government bonds into French government securities. The yield spread between UK gilts and French bonds – around 135 basis points (or 1.35 percentage points) at the beginning of the week – had climbed to around 145 basis by Friday night.

Friday's half-percentage cut in UK base rates, the sixth decrease since mid-February, was widely expected and failed to increase the temperature of the market. Base rates were brought down to 11 per cent from 11.5 per cent as part of a government effort to revive the economy.

Gilt specialists were also anticipating Friday's announcement of a £500m issue of existing government bonds by the Bank of England. The issue is being sold in two £250m tranches – of 12 per cent exchequer stock due 1998, and 9.5 per cent conversion stock due 2005. They will be available for dealing on July 15 1991. The certified prices on the tranchettes are 106⅛ on the 12 per cent stock, and 95⅛ on the 9.5 per cent securities.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Last week was dominated by two pieces of news on inflation, one good for the gilt market and one less promising.

The good news came from an announcement that prices of manufactured goods increased at a yearly rate of 5.7 per cent last month, the lowest annual rate of increase for more than a year. The output price index, which rose by 0.3 percentage points to give an annual increase of 6 per cent in May, stayed unchanged in June.

A separate index which strips out food, drink and tobacco prices also surprised analysts by rising only 5.2 per cent, after 5.5 per cent in May. This is regarded as a key measure of underlying inflation by the Treasury, and showed how low demand has cut into manufacturers' ability to push through price rises.

The less wonderful news came from the fact that the rise in retail price inflation, which had been expected to show a fall in June, stayed at an annual rate of 5.8 per cent in June, the same as in May. The Central Statistical Office said a rise in seasonal food prices, as a result of the poor June weather, had kept inflation above the expected rate of about 5.6 per cent. Price rises for alcoholic drinks and electricity, and motoring costs also raised the figure in June.

There was an increase to 6.9 per cent from 6.7 per cent in the Treasury's preferred measure of inflation, which excludes mortgage interest payments. Leaving aside the poll tax too, underlying inflation climbed to a 10-year high of 8.9 per cent in June.

However, the slightly depressing impact of the retail price statistics failed to dent the confidence of the market about future inflation trends. News expected this week of a further large rise in unemployment, plus bleak figures for industrial output, are likely to push home the message that Britain will remain in the grip of recession for some time.

Mr John Shepperd, analyst at S.G. Warburg, said: "I am inclined to regard the latest retail price figure as a one-off, against the general trend."

Mr Steve Bell, economist at Morgan Grenfell, says the rise in prices in the gilt market recently should continue during the next few weeks. "The news about the recession will continue to be depressing and my advice is to buy gilts."

Peter Marsh

JAPANESE BONDS

No reaction to Big Four suspensions

JAPANESE bond markets remained subdued last week in advance of the four-day suspension from trading of the Big Four brokerages – Nomura, Daiwa, Nikko and Yamaichi – which begins today.

While revelations of the stock-scandals crippled the equity market, the bond market failed to react, and yields have remained around 6.8 per cent, although volume has fallen to a daily range of Y200bn to Y300bn ($2.1bn).

Trading, mostly driven by the Big Four, stagnated. Even the usually volatile bond futures contracts were quiet, with volume plunging to Y170bn on Friday.

There was no "flight to quality" by investors shifting funds from stocks to government bonds. And although some investors were seen selling stocks, funds were not placed into the bond market.

The unexpected discount-rate cut at the beginning of the month also had little effect on bond yields and short-term interest rates. Three-month CD rates eased by a mere 30 basis points to 7.61 per cent, and yields on the No 129 10-year benchmark bond fell only from 6.855 per cent to 6.730 per cent.

"The underlying fundamentals are not good," says Mr Russell Jones, economist at UBS Phillips & Drew. Investors reckoned a further cut in interest rates was needed for a rally, since monetary easing had already been discounted into bond yields on hopes of credit easing at the beginning of the year.

Although rumours of a further cut in interest rates are widespread, analysts contend that another credit easing could undermine the credibility of the Bank of Japan.

Explanations for the recent rate cut were related to Japan's willingness to prove its support for the world economy and to support the faltering domestic equity market.

Both reasons, while plausible, contradict what Mr Yasushi Mieno, Bank of Japan governor, has been reiterating: that monetary policy should not be set on the basis of foreign pressure, or movements of the stock market.

If investors perceive that monetary policy is being affected by factors other than economic, confidence in the Bank of Japan could deteriorate, causing a re-evaluation of prospects on long-term inflationary pressures.

Meanwhile, the volatile stock markets have given rise to fears that banks, which have to meet stiff capital-to-assets ratios, may be forced to liquidate their bond portfolios.

Several city banks have indicated that they may start to sell some 20 to 30 per cent of existing bond holdings over the next few years. An average city bank holds up to Y1,700bn in government bonds.

Mr David Atkinson, analyst at Salomon Brothers Tokyo, says that liquidation of bond holdings will be an ongoing trend. "A gradual sell-off will be seen over the next two years due to the negative cost of carrying a long-term bond portfolio," he said.

A weak stock market could also prompt banks to raise capital through subordinated debt. A flood of fresh debt could affect the volatile financial markets, and the thin government bond market.

The fall in overnight call rates below 7.5 per cent during the past week has eased the inverted yield curve.

Some economists see another cut in the discount rate during the next quarter casting some light, but Mr Jones says that a big reduction in short-term interest rates will be needed, and it may be 1992 before the curve flattens.

Emiko Terazono

US MONEY AND CREDIT

Calm as Greenspan is reappointed

WHEN Mr Alan Greenspan was appointed chairman of the Federal Reserve in 1987 the bond market reacted with one of its largest one-day declines. Last week, when US President George Bush announced that Mr Greenspan was to get another four years at the helm of the country's central bank, no one reached for the panic button.

The sharp drop in bond prices in 1987 reflected dismay that Mr Paul Volcker would not be not staying for another term, rather than a lack of confidence in the newcomer. Yet the warm reaction to Mr Greenspan's reappointment last week represented a small triumph for the Fed chief, who had the difficult task of filling the gap left by Mr Volcker, a central banker admired for his tough stance on inflation.

Although Mr Greenspan's reappointment for another term had always been odds-on, the delay in the announcement was seen by many observers as a reminder from Washington that the Fed's "gradualist" approach to interest rate policy has sometimes been too gradual for the Bush administration's liking.

It is no secret that the president was unhappy last year with the Fed's reluctance to cut interest rates when it was obvious that the economy was heading into a recession. That Mr Greenspan eventually engineered a series of rate cuts in early 1991 did go some way to restoring the administration's faith in the Fed, but the differences never fully healed.

The feeling remains that the politicians wanted more rate reductions than they got. This feeling was probably behind the rumour last week that the president had considered replacing Mr Greenspan with Mr Gerald Corrigan, president of the New York Federal Reserve Bank. Speculation died when Mr Corrigan was chosen by the world's biggest central bank to become chairman of the influential Basle Committee on Banking Supervision.

The US financial community reacted positively to the chairman's reappointment, but it was not long before fresh evidence of differences between the objectives of the Fed and the Bush administration reappeared, threatening to undermine the market's good mood. On Friday, Mr Nicholas Brady, the Treasury secretary, said that low inflation was a more practical policy goal than zero inflation.

Mr Brady immediately denied that there was any difference between his and the Fed's inflationary goals. Yet it is known that most members of the policy-making Federal Open Market Committee, led by hawks like Mr Wayne Angell and Mr David Mullins, the new vice-chairman, support the idea that Fed policy should attempt to bring down inflation as near to zero as possible.

The bigger-than-expected fall in producer prices during June, reported on Friday, indicated that the Fed's war against inflation was being won.

But retail sales data suggested that the economic turnround was proving painfully slow, and talk resurfaced that the Fed might have to cut interest rates again to add fuel to the recovery.

There is no shortage of economic analysts predicting a double-dip recession if policy is not eased soon. If their forecasts of a deterioration in economic indicators later this summer prove correct, then political pressure for lower interest rates will mount, especially as the downward direction of inflation appears to leave room for a rate cut.

Such a scenario would be good for bonds, but the market will be reluctant to bet against another loosening of the monetary reins by a Fed chairman full of confidence after his reappointment and still unhappy with consumer price inflation at about 5 per cent.

● The municipal bond market will be keeping a close eye this Tuesday on the first steps in the City of Bridgeport bankruptcy case. Local courts will hear objections from the state of Connecticut to its largest city's filing under Chapter 9 of the Bankruptcy Code, and the arguments are expected to last for about a week.

While this has no immediate bond market impact – Bridgeport has gone out of its way to stress that payments on its $200m worth of issues outstanding will be met in the short term – the case may focus attention on the shaky state of municipal finances, especially in New England.

The Bond Investors Association has noted that, while corporate bond defaults fell during the second quarter, the tax-exempt municipal bond market showed a marked deterioration, with 36 issuers defaulting on $2.09bn worth of bonds. This is up from $989m of defaults in the first quarter, and is the highest quarterly figure for eight years.

Patrick Harverson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.69	5.75	5.62	11.00	2.00
Three-month Treasury bills	5.72	5.73	5.74	7.81	5.53
Six-month Treasury bills	5.92	5.96	6.03	7.75	5.82
Three-month prime CDs	5.97	6.00	6.15	9.01	5.86
30-day Commercial Paper	5.92	6.00	6.00	9.95	5.80
90-day Commercial Paper	5.95	6.05	6.00	10.05	5.81

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	100⅔	+2⅔	8.13	8.21	8.13
20-year Treasury	107⅞	+⅞	8.43	8.47	8.45
30-year Treasury	96⅞	+⅞	8.43	8.49	8.45

Money supply: In the week ended July 1, M1 fell by $3.5bn to $862.1bn

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	101⅝	+⅛	7.75
ABN 9 1/8 94	200	101¼	+⅛	8.44
AETNA LIFE & CAS 7 3/4 16	200	99⅝		7.78
ALBERTA PROVINCE 8 5/8 96	750	100¼	+⅛	8.55
ALBERTA PROVINCE 9 3/8 95	600	103¼	+⅛	8.42
AMERICAN EXPRESS 0 00	450	42¼	+¼	9.58
AMERICAN GENERAL 9 3/4 95	100	100⅞		9.71
ANHEUSER-BUSCH 9 1/8 92	100	101⅝	+⅛	7.56
ASIAN DEV BANK 0 04	1000	31⅝	+⅛	9.23
AUSTRALIA 11 95	200	108		8.48
AUSTRALIAN WHEAT 9 1/2 93	200	103	+⅛	8.05
AUSTRIA 7 3/4 97	200	96½	+⅛	8.51
SASKATCHEWAN 15 92	150	107⅛		7.66
SBAB 9 1/2 95	500	103⅜	+⅛	8.36
SEAGRAM CO 8 1/2 96	100	97⅝	+⅛	9.19
SEARS O/S FIN 0 98	500	51¼	+⅛	10.02
SEARS O/S FIN 11 5/8 93	150	105½	+⅛	8.79
SKANDIA INTL 7 1/4 92	200	99⅝		7.36
SNCF 7 1/4 94	175	99⅛	+⅛	7.61
SNCF 9 1/2 98	150	103⅝	+⅛	8.76
STATE BK STH AUST 9 1/4 93	100	102	+⅛	7.80
STATE EL VICTORIA 10 92	100	102⅛		7.76
STATOIL 7 5/8 94	200	98	+⅛	8.48
STH AUST GOVT FIN 8 3/4 93	100	101½	+⅛	7.73
SUMITOMO BK CAP MKT 9 3/8 93	150	102⅝	+⅛	8.07
PHILIP MORRIS 9 7/8 98	200	101⅝	-⅛	9.51
PROCTER & GAMBLE 10 95	150	102⅞	+⅛	9.15
PRUDENTIAL RLTY SECS 0 99	365.216	51⅛	+⅛	9.38
QANTAS AIRWAYS 8 5/8 96	97.75	99⅝	+⅛	8.77
QUEBEC HYDRO 9 3/4 98	150	102⅞	+⅛	9.17
QUEBEC PROV 9 98	200	99½	+⅛	9.09
QUEENSLAND GOVT 10 1/4 95	100	104⅞	-⅛	8.81
RALSTON PURINA 11 3/4 95	150	106⅝		9.53
REED PUBLISHING 9 5/8 97	150	101½		9.29
REYNOLDS (RJ) 10 1/4 93	100	99⅞	+⅛	10.28
SAINSBURY 9 1/8 96	150	101½	+⅛	8.74
SARA LEE 9 3/8 93	150	102¼	+⅛	8.16
SAS 10 99	200	99¾		10.10
SAS 10 1/8 95	150	102¼	+⅛	9.44
EUROFIMA 6 1/4 98	400	87¼		8.76
FERRO DEL STAT 5 3/8 93	500	95		9.03
IND BK JAPAN FIN 5 5/8 96	200	87½		8.86
IND DEV BK INDIA 6 3/8 94	200	88⅛		10.45
INTER AMER DEV 7 1/4 99	300	92½	-⅛	8.59
LUFTHANSA INT FIN 5 7/8 98	500	85¼	-⅛	8.85
MET EST & PROP INTL 7 99	150	87¼	+⅛	9.36
NAT BK HUNGARY 8 96	200	90¼		10.46
QUEBEC HYDRO 6 3/4 99	300	88⅞		8.79
SWEDEN 6 1/8 98	300	88¼	+⅛	8.49
VENEZUELA 8 1/4 93	100	96	-1¼	10.21
WORLD BANK 0 15	2000	16		7.79
WORLD BANK 5 3/4 96	300	89	+⅛	8.70
WORLD BANK 7 1/8 95	500	96¼	-⅛	8.38

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	93	-1	6.65
AUSTRIA 4 5/8 98	100	88¼	-1½	6.79
CHUJITSUYA 7 3/4 95	50	101½	+½	7.31
COUNCIL EUROPE 4 3/4 98	250	89½	+¼	6.77
EEC 5 1/2 00	100	91	-½	6.82
EIB 5 3/4 93	100	97½		6.95
ELEC DE FRANCE 7 1/4 06	100	104½		6.75
FINLAND 5 3/8 95	150	96½	+½	6.32
GENERAL MOTORS 7 1/2 95	100	101½		7.01
JAPAN DEV BK 5 1/2 94	100	96½	-¼	6.90
NEW ZEALAND 4 7/8 99	200	88	-½	6.96
QUEBEC HYDRO 5 08	100	79		7.20

EQUITY WARRANTS	Expiry Date	Offer price	Chg on week	Prem
BRIDGESTONE CORPN	07/10/92	2¼	+¼	24.56
CASIO COMPUTER	16/09/92	11⅞	-1	-9.97
DAIWA HOUSE INDUSTRY	04/06/92	½	+⅛	92.28
FUJITSU	20/04/93	2¼	+⅛	45.91
HINO MOTORS	06/07/94	7½	+½	33.83
MITSUBISHI EST	11/03/94	2½		
NICHII	17/05/95	½		78.95
NIPPON MEAT PACKERS	17/09/92	1⅜	-⅛	44.23
NIPPON OIL	14/08/92	1	-¼	43.62
SUMITOMO CHEM	20/01/93	½	+½	
TOYO SASH	27/04/93	9½	+1½	38.80
TOYOTA MOTOR	15/07/92	16½	+⅛	[illegible]
UNITIKA	20/07/93	2	-⅛	[illegible]
YAMANOUCHI PHARM	30/06/92	1	+½	30.21

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on July 12

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Bankers plan talks on deals for Kuwait

DISCUSSIONS on Kuwait's first long-term borrowing since the end of the Gulf war – and indeed in recent history – are expected to advance in London this week.

Arab banking sources expect the funding to be channelled through the Kuwait Investment Authority (KIA), acting as the country's legal borrowing entity.

Kuwaiti authorities have already spoken with some banks to arrange loans to cover the cost of rebuilding Kuwait and to pay for their obligations to the Allies. The cost of rebuilding Kuwait is estimated to be between $20bn and $30bn.

Short-term funding in the form of repurchase agreements was recently secured. In addition, Kuwait has placed several orders – for example a $2.5bn contract with Airbus – for aircraft to replace those lost during the war. Funding for this venture is also under discussion. Some bankers, however, have expressed concerns about lending to Kuwait, because of uncertainty about credit and political risk.

When bankers discuss lending to Kuwait, they draw comparisons with Saudi Arabia. J.P. Morgan recently arranged a three-year $4.5bn syndicated loan for Saudi Arabia at a margin of ⅜ point over the London interbank offered rate (Libor). However, many bankers think a loan to Kuwait will be difficult to price.

Another pointed out that "while the Kuwaitis may be pitching to borrow at margins of between ⅜ and ½ percentage point over Libor, a margin of between ¾ and 1 per cent may be more realistic".

The questions uppermost in bankers' minds are:

● Who will be running Kuwait in five years ? Many are worried that the ruling al-Sabah family will have lost its grip by then, and that there may not be a stable government in the country. "If the US and Britain push Kuwait towards democracy, will this mean Islamic fundamentalism? Because if it does, the bankers will be out of the door like a shot," says one UK banker.

● Would Kuwait be prepared to use some of its existing assets as security for loans? If it was prepared to borrow against its bond portfolios, for example, it would be able to fund more cheaply. However, the indication so far is that Kuwait would not. "Top quality borrowers don't give security. The Saudis didn't give security for their loan so Kuwait is very unlikely to want to give security," according to one Japanese banker.

● Who would lend to Kuwait? The Basle international capital adequacy rules require banks to set aside varying amounts of capital when they make loans, according to the status of the borrower. Kuwait has a full risk weighting, unlike Saudi Arabia, which means Kuwait is less attractive to banks.

Kuwait's risk weighting might deter banks worried about meeting their capital adequacy requirements, such as the Japanese banks which have had their capital base undermined by the recent Tokyo stock market slide. However, Japanese bankers say they do not regard this as a serious obstacle, provided the pricing takes it into account.

● What form will Kuwait's borrowings take? Bankers think Kuwait is likely to arrange a combination of export-related credits and some general syndicated credits. They point out that Kuwait could borrow more cheaply by arranging a series of one-year facilities which would eliminate some of the political risk. These short-term loans could be used to supplement three- and five-year syndicated loans.

Sara Webb and Tracy Corrigan

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	1,697.3	30.0	140.0	15,978.7
Prev	1,158.0	370.1	29.0	12,338.3
Other	2,901.0	0.0	330.7	8,128.3
Prev	2,505.3	54.2	959.3	5,853.2

Secondary Market

US$	15,696.6	764.2	6,499.8	10,134.9
Prev	22,093.1	1,708.8	10,530.1	11,807.9
Other	30,064.9	844.9	3,087.0	52,000.3
Prev	37,640.4	995.2	4,362.7	55,835.8

	Cedel	Euroclear	Total
US$	20,608.9	30,322.6	50,931.5
Prev	23,783.5	36,251.8	60,035.3
Other	38,037.3	59,319.8	97,357.1
Prev	46,267.3	61,938.8	108,206.1

Week to July 11, 1991 Source: AIBD

INTERNATIONAL BONDS

Interest in long-dated corporate issues alive and well

THERE was a flurry of activity in long-dated sterling bonds last week, with British Steel, Associated British Ports and TSB all raising long-term finance from UK life companies and pension funds.

While institutional demand for paper may be subdued while the issues are digested, the £350m in deals in one week showed that institutional appetite for long-dated corporate bonds is alive and well.

However, any company contemplating a long-dated issue of sterling bonds must balance the benefits of current institutional appetite for paper against the risks of locking in to long-term finance when sterling interest rates are widely expected to fall.

Sterling's entry into the European exchange rate mechanism last year has raised expectations that UK interest rates will, in time, converge with those of other ERM countries – notably Germany. This risk was underlined by the half-point cut in UK interest rates to 11 per cent on Friday.

Against this, short-term floating-rate funding from the banking sector is less readily available, and much more expensive, than in the 1980s. Corporate lending margins have widened dramatically over the past year alone as banks have sought to rebuild lending margins and return on capital. In addition, a bond issue can actually be used to free lines of bank credit by selling paper to long-term savings institutions such as pension funds, and using the proceeds to repay bank debt.

This objective is often harder to achieve. Banks buy high-yielding corporate bonds and use the paper for "asset swaps" – in which the bank can exchange fixed-rate asset for a floating-rate asset to achieve a floating-rate stream of income well above the London interbank offered rate (Libor).

The only sure way of attracting an investor base dominated by life companies and pension funds is to issue long-dated bonds, in which banks have little interest.

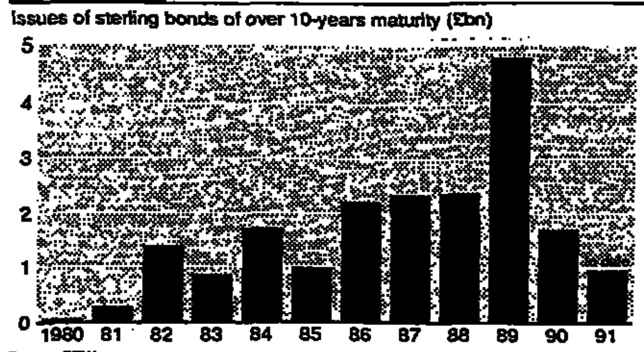
However, analysts do not expect a flood of new issues. Institutions appear to have weighted their portfolios further in favour of bonds as the depth of the recession has become clear, but most fund managers are still equity-led.

In addition, the government is expected to auction between £1bn and £2bn of long-dated gilts this year.

Simon London

Long-dated corporate borrowing

Issues of sterling bonds of over 10-years maturity (£bn)



Source: BZW

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Yukong Ltd.(v)◆†	75	1996	5	$5\frac{1}{2}$	100	Baring Brothers & Co.	5.500
Tobu Railway◆	300	1995	4	$4\frac{1}{4}$	100	Yamaichi Int.	4.250
Showa Elec.Wire & Cable◆	120	1995	4	$4\frac{1}{4}$	100	Daiwa Europe	4.250
Tokyu Hotel Chain◆	120	1995	4	$4\frac{1}{4}$	100	Yamaichi Int.	4.250
Tsutsunaka Plastic Ind.◆	100	1995	4	$4\frac{1}{4}$	100	Daiwa Europe	4.250
Senshukai Co.◆	100	1995	4	$4\frac{1}{4}$	100	Daiwa Europe	4.250
Tokyo Electron(e)◆†	300	1995	4	4	100	Nomura Int.	4.000
Keiyo Co.(g)◆†	100	1995	4	4	100	Yamaichi Int.	4.000
Sumitomo Rubber Ind.(f)◆†	100	1996	5	5	100	Daiwa Europe	5.000
Teijin Seiki Co(i)◆†	100	1996	5	5	100	Daiwa Europe	5.000
Naigai Co.(h)◆†	100	1995	4	4	100	Nikko Secs.	4.000
Japan Steel Works(m)◆†	150	1995	4	4	100	Nomura Int.	4.000
Nakayama Steel Works(e)◆†	120	1996	5	5	100	Nomura Int.	5.000
Petroleo Brasileiro SA(n)†	250	1993	2	10	94.0388	Chase Investment Bk	13.956
SBAB(o)†	200	1997	$5\frac{2}{3}$	$8\frac{1}{2}$	100.30	Nomura Int.	8.414
SAB Finance Inc(p)§†	60	1998	7	$7\frac{1}{2}$	100	Morgan Stanley Int.	7.500
Bca.Comm.Italiana(q)‡†	50	2001	10	(q)	$101\frac{7}{8}$	Sumitomo Finance Int.	-
Toshiba Eng.& Constr.(h)◆†	100	1996	5	5	100	Nomura Int.	5.000
Prudential Funding Corp†	200	1995	4	$8\frac{1}{4}$	101.305	SBC	7.857
Osaka Cement Co.◆	100	1995	4	$4\frac{1}{2}$	100	Nomura Int.	4.500
Nordbanken(a1)‡†	50	1995	4	(a1)	$101\frac{1}{4}$	Samuel Montagu	-
ECUs							
Credit Suisse Fin.†	200	1995	4	$9\frac{1}{4}$	100.475	CSFB	9.103
STERLING							
Tate & Lyle Int.Fin.(c)◆†	93	2001	10	$5\frac{3}{4}$	76.9	Merrill Lynch Int.	-
Associated British Ports(a)†	100	2011	20	$11\frac{7}{8}$	100.005	BZW Secs.	12.227
British Steel(t)†	150	2016	15	$11\frac{1}{2}$	100.572	BZW Secs.	11.745
TSB Group(w)†	100	2011	$19\frac{1}{2}$	12	99.257	SG Warburg Secs.	12.077
CANADIAN DOLLARS							
Ford Credit Canada†	100	1996	5	11	101.40	ScotiaMcLeod Inc.	10.625
Oest.Postsparkasse†	200	2001	10	$10\frac{3}{4}$	99.95	UBS Phillips & Drew	10.758
Vancouver City Savings(b1)†	50	1996	5	$10\frac{3}{4}$	102.05	Hambros Bank	10.206
CCF(c1)†	50	1994	2.833	$10\frac{1}{8}$	99.85	Goldman Sachs	10.160
AUSTRALIAN DOLLARS							
National Australia Bank†	75	1995	4	12	101.95	Hambros Bank	11.367
FRENCH FRANCS							
EIB†	2bn	2001	10	$9\frac{1}{2}$	99.69	BNP Capital Mkts.	9.550
African Devt.Bank†	2bn	1996	5	$9\frac{1}{2}$	99.81	CCF	9.550
D-MARKS							
Mr Max Corp◆	100	1995	4	5	100	Nomura Europe GmbH	5.000
Chubu Steel Plate◆	100	1995	4	5	100	Nikko Bk GmbH	5.000
Teraoka Seisakusho(g)◆†	40	1995	4	5	100	Nikko Bk GmbH	5.000

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
SWISS FRANCS							
Kanebo(j)★★§	150	1995	-	4	100	SBC	4.040
Nissan Construction(k)★★§	100	1995	-	4	100	Nomura Bk (Switz)	3.997
Gourmet Kineya(u)★★◆†	45	1995	-	$2\frac{7}{8}$	100	Daiwa Secs.(Switz)	2.875
San-ai Oil Co(e)★★§†	100	1995	-	4	100	Credit Suisse	3.997
JAMCO Corp★★§†	80	1995	-	5	100	New Japan Secs.(Switz)	4.995
Nishio Rent All Co.(d)★★§†	55	1995	-	4	100	UBS	3.995
Advantest Corp(e)★★◆†	100	1995	-	$2\frac{7}{8}$	100	Credit Suisse	2.875
Nippon Densan Corp(e)★★◆†	60	1995	-	$2\frac{5}{8}$	100	Daiwa Secs.(Switz)	2.625
Pacific Metals Co.(e)★★◆†	120	1996	-	3	100	SBC	3.000
Funai Consulting(e)★★§†	60	1995	-	4	100	SBC	3.999
Sum.Light Metal(e)★★◆†	100	1996	-	$3\frac{3}{8}$	100	Banca del Gottardo	3.375
Osaki Electric Co.(r)★★§	50	1995	-	4	100	Wirtschafts & Privatbk.	4.040
Riso Kagaku(s)★★§	30	1995	-	$5\frac{1}{2}$	100	Nikko Bk (Switz)	5.576
Longchamp Co.★★◆	25	1995	-	$3\frac{1}{8}$	100	Coutts & Co.AG	3.125
Nissho Corp(x)★★◆	100	1995	-	$3\frac{1}{2}$	100	UBS	3.531
Toko Inc.★★†	50	1996	-	$7\frac{1}{4}$	100	Credit Suisse	7.250
Toko Inc.★★◆	50	1995	-	$3\frac{1}{2}$	100	Credit Suisse	3.500
Yamato Setubi Constr.(y)★★§	40	1996	-	$5\frac{1}{8}$	100	New Japan Secs.(Switz)	5.118
Rio Chain Co.(z)★★◆	35	1995	-	$3\frac{1}{2}$	100	Nomura Bk (Switz)	3.500
LIRE							
Daimler Benz Int.Fin.BV†	150bn	1995	4	$12\frac{1}{4}$	101.60	Bca.Comm.Italiana	11.726
Costa International BV(b)§†	30bn	1997	6	9	100	Euromobiliare SpA	9.000
Crediop†	300bn	2001	10	11.2	101.325	Banco di Napoli	10.975
Postipankki†	150bn	1996	5	12.30	101.80	Banco di Roma	11.803
GUILDERS							
Buehrmann-Tetterode†	150	1996	5	$9\frac{1}{4}$	100.70	Rabobank Nederland	9.070
SWEDISH KRONOR							
SBAB(l)†	250	1995	4.167	$10\frac{1}{2}$	99.65	Svenska Int.	10.585
AUSTRIAN SCHILLINGS							
Council of Europe(d1)†	1bn	1993	2	$8\frac{3}{8}$	100.80	RZB	7.927
LUXEMBOURG FRANCS							
BBL International NV†	1bn	1999	8	$9\frac{3}{4}$	102	Credit Europeen	9.384
Essilor (America)★★†	600	1996	5	$9\frac{5}{8}$	101.85	BGL	9.146
Fiat Finance & Trade★★†	150	1994	3	$9\frac{5}{8}$	101.85	BGL	8.896

★★Private placement. §Convertible. ◆With equity warrants. ‡Floating rate note. ◆Variable rate notes. †Final terms. a) Coupon payable semi-annually. Non-callable. b) Conversion premium fixed at 5.2%. Non-callable. c) Fungible with existing £90m deal. Issue price split 59¼% for bonds and 17.65% for warrants. Callable after 5 years at accreted value. d) Conversion premium fixed at 2.51%. e) Exercise premium fixed at 2.5%. f) Exercise premium fixed at 2.57%. Non-callable. g) Exercise premium fixed at 2.52%. Non-callable. h) Exercise premium fixed at 2.55%. Non-callable. i) Exercise premium fixed at 2.58%. Non-callable. j) Put option 30/9/93 at 107% to yield 7.084%. Coupon payable semi-annually. k) Put option 31/3/94 at 108¼% to yield 6.811%. l) Fungible with existing SKr500m deal. Non-callable. m) Exercise premium fixed at 2.62%. Non-callable. n) Callable at 97.0699% from 2/8/92. Coupon payable semi-annually. o) Fungible with existing $400m deal. Non-callable. p) Callable from 1995 at par plus coupon, declining in equal stages to par. Conversion premium fixed at just below 11½%. Coupon was indicated at 7½%. Amount was $75m. q) Coupon pays 50bp over 6-month Libor for first 2 years, then fixed at 10%. Callable at par, once only, after 2 years. r) Coupon payable semi-annually. Put option 31/3/94 at 108⅛% to yield 6.823%. s) Coupon payable semi-annually. Callable 30/9/93 at 101% declining ¼% semi-annually. t) Issue is secured over the borrower's assets. Coupon payable semi-annually. Non-callable. u) Exercise premium fixed at 2.53%. Non-callable. v) Exercise premium fixed at 28%. Non-callable. w) Subordinated issue. Non-callable. x) Callable 31/7/93 at 101% declining ¼% semi-annually. y) Early redemption 20/3/92 at 102% declining ½% annually. z) Callable 2/8/93 at 102% declining ½% semi-annually. a1) Coupon pays 75bp over 6-month Swiss Franc Libor. Non-callable. b1) Fungible with existing C$100m launched 3/7/91. c1) Fungible with existing C$200m deal. d1) Foreign bond. Non-callable. Note: Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

AUSTRIA

1991 High	Low	July 12	Price Sch
3,710	2,210	Austrian Airlines ..	3,031
703	650	Creditanstalt	699
4,925	3,200	EA General	4,270
902	583	EVN	860
11,521	6,656	Jungbunzlauer ..	9,530
1,440	937	Laenderbank	1,380
1,012	799	OeMV	883
1,920	1,129	Perlmooser Zement ...	1,510
966	550	Radex Heraklith .	841
2,300	1,480	Reininghaus Brau ..	2,070xd
449	276	Steyr Daimler....	400
869	538	Veitscher Magnesit ...	632
564	445	Verbund (Br) A ...	526
6,135	4,268	Wienerberger ...	5,561

BELGIUM/LUXEMBOURG

1991 High	Low	July 12	Price Frs.
3,020	2,110	ACEC-Union Min ..	2,390
4,540	2,750	Arbed	4,380xd
3,210	2,280	BBL	2,620
12,800	10,000	Bank Intl a Lux	10,050
12,850	12,400	Banq Gen Lux Pts	12,800
1,505	910	Barco	1,098
9,950	6,530	Bekaert	9,400
8,420	5,260	CBR Ciment	8,140
5,560	4,530	Cobepa	5,020
5,700	4,600	Cobepa AFV 1	4,970
193	133	Cockerill Priv ...	172xd
3,625	2,480	Colruyt	3,450
8,390	5,550	Delhaize Frs Lion ...	7,910
4,920	4,165	Electrabel	4,425
4,910	4,080	Electrabel AFV ...	4,380
3,141	2,482	Electrafina ACT ..	2,950xd
234	71	Fabrique Nat ...	101
3,950	2,910	GBL	3,475xd
3,860	2,900	GBL AFV 1	3,400xd
1,446	982	GIB Group	1,280
1,370	960	GIB Group AFV ...	1,300

FRANCE (continued)

1991 High	Low	July 12	Price Frs.
2,778	2,201	Bongrain	2,390
642	412	Bouygues	547
1,201	765	CGIP	1,003
159	92.10	C M B Packaging	149.10
1,095	785	Canal+	1,030xd
444	309.80	Cap Gemini S ...	315.10
2,129	1,553	Carrefour	1,910
154.80	117.10	Casino	122.40
729	433	Cetelem	679
855	637	Chargeurs	725
530	383	Club Mediterranee ...	434.60xd
400	326	Cogifi	326xd
590	560	Coparex	564xd
183.80	133	C C F	147.90
1,294	801	Cr Fonc France ...	1,131
689	500	Cred Lyon (CI) ...	512xd
1,289	920	Credit National .	1,170
2,310	1,649	Damart	2,003
416	355	Docks de France ...	365
433	245	Dollfus Mieg Cie ...	342
906	701	EBF	730xd
2,725	2,050	Eaux Cie Genl ...	2,400
423	258	Ecco	401
379	248	Elf-Aquitaine ...	341.10xd
254.50	191	Elf-Aquitaine Certs .	214
429	285	Essilor Int	346.50xd
2,240	1,310	Etex	1,672
1,829	1,270	Eurafrance	1,654
929	575	Eurocom	815
125	90	Euro Disney	119.50
4,479	2,901	Euromarche	4,470
1,520	1,024	Exor	1,383
160	113.20	Finextel	116
880	685	Fonc Lyonnaise ...	692
2,240	1,641	From C et Aux	2,150
468	287.50	GTM-Entrepose	410xd
1,850	1,350	Gal. Lafayette ...	1,551xd
987	815	Gaumont (Soc N) ...	830
816	592	Geo Occidentale ..	762xd
863	455	Geophysique	769

GERMANY (continued) · **NETHERLANDS** · **SWEDEN (continued)** · **SWITZERLAND** · **DENMARK** · **FINLAND** · **FRANCE** · **NORWAY** · **ITALY** · **SPAIN** · **SOUTH AFRICA** · **SWEDEN** · **JAPAN** · **AUSTRALIA** · **HONG KONG** · **MALAYSIA** · **SINGAPORE**

[illegible]

CANADA

TORONTO

4:00 pm prices July 12

Quotations in cents unless marked $

[illegible]

MONTREAL

4:00 pm prices July 12

Sales	Stock	High	Low	Close	Chng
9000	Cascades	495	490	490	−5
4200	DominTxt A	$7⅝	7⅝	7⅝	+¼
900	MacleanHnt	$10⅛	10⅛	10⅛	
9000	Memotec	$9⅞	9⅜	9⅜	−⅛
33800	NatBk Can	$11	10⅞	10⅞	
5700	Provigo	$11⅛	10⅞	11⅛	
300	Quebecor A	$17⅝	17⅝	17⅝	
500	Videotron	$13⅛	13⅛	13⅛	

Total Sales 10,033,700 shares

INDICES

NEW YORK

DOW JONES	July 12	July 11	July 10	July 9	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
◆Industrials	2980.77	2959.75	2944.77	2947.23	3035.33 (3/6)	2470.30 (9/1)	3035.33 (3/6/91)	41.22 (2/7/32)
Home Bonds	94.24	94.09	94.17	94.16	95.09 (30/5)	91.30 (16/1)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	1208.39	1213.50	1205.04	1207.51	1241.89 (3/6)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	198.06	196.87	195.17	196.62	220.89 (16/4)	195.17 (10/7)	236.23 (2/1/90)	10.50 (8/4/32)

◆Day's High 3009.35 (2975.63) Low 2942.98 (2933.36)

STANDARD AND POOR'S	July 12	July 11	July 10	July 9	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	380.25	376.97	375.74	376.11	390.45 (17/4)	311.49 (9/1)	390.45 (17/4/91)	4.40 (1/6/32)
Industrials	453.65	449.55	448.08	448.74	463.23 (18/4)	364.90 (9/1)	463.23 (18/4/91)	3.62 (21/6/32)
Financial	29.78	29.41	29.39	29.31	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	208.16	206.54	205.87	205.98	213.21 (17/4)	170.97 (9/1)	213.21 (17/4/91)	4.46 (25/4/42)
Amex Mkt. Value	364.14	361.84	361.94	360.55	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	492.71	488.37	487.17	483.64	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	July 5	June28	June21	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.16	3.07	3.71

	Jul 10	Jul 3	Jun 26	year ago (approx.)
S & P Industrial div. yield	2.79	2.81	2.83	2.96
S & P Indl. P/E ratio	18.89	18.77	18.68	16.95

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Waste Mangmnt	5,465,400	35¼	- 2
Pan Am Corp	5,213,000	⅛	- ⅛
Chemical Waste	3,900,000	18⅞	- 2⅛
Telefonos	2,969,600	30	+ 1
Fannie Mae	2,482,000	55	+ 1⅝
RJR Nabisco	2,195,800	11¼	+ ¼
Citicorp	2,106,000	14	+ ⅝
Pepsico	2,041,500	29⅝	+ ½
Chiquita	1,996,700	44½	+ ⅞
Triton	1,939,400	23⅝	+ 2⅞

TRADING ACTIVITY

† Volume Millions	July 12	July 11	July 10
New York SE	173.060	158.413	178.170
Amex	9.351	9.578	12.455
NASDAQ	(u)	140.025	171.609
NYSE			
Issues Traded	2,068	2,044	2,063
Rises	1,016	845	843
Falls	499	610	700
Unchanged	553	589	520
New Highs	76	49	76
New Lows	18	13	16

CANADA

TORONTO	July 12	July 11	July 10	July 9	1991 HIGH	1991 LOW
Metals & Minerals	3210.40	3189.36	3194.80	3178.44	3284.18 (5/3)	2632.06 (9/1)
Composite	3516.34	3507.89	3504.17	3497.39	3582.07 (7/6)	3161.95 (15/1)
MONTREAL Portfolio	1873.61	1868.19	1866.25	1861.59	1903.86 (7/6)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	July 12	July 11	July 10	July 9	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1531.9	1534.2	1542.8	1538.8	1558.3 (29/4)	1204.5 (16/1)
All Mining (1/1/80)	679.0	682.7	690.0	687.8	690.0 (10/7)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	491.74	492.66	491.88	492.17	534.81 (16/4)	390.84 (15/1)
BELGIUM						
BEL20 (1/1/91)	1150.24	1148.92	1147.37	1146.99	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	378.97	378.07	376.30	374.31	378.97 (12/7)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	983.0	978.8	972.9	970.9	1186.9 (8/4)	890.5 (23/1)
FRANCE						
CAC General (31/12/82)	468.32	467.00	463.05	462.12	494.95 (12/6)	394.88 (15/1)
CAC 40 (31/12/87)	1754.29	1754.03	1757.38	1734.45	1874.81 (11/6)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	689.92	684.81	684.82	681.96	717.43 (17/6)	578.48 (15/1)
Commerzbank (1/12/53)	1944.2	1929.6	1930.3	1921.9	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1644.76	1637.85	1634.74	1627.63	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3915.17	3892.12	3901.23	3904.19	3917.09 (20/5)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1341.40	1355.40	1354.65	1366.56	1520.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	567.26	568.11	569.82	573.95	619.38 (3/6)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	23137.78	22937.92	23121.30	22608.96	27146.91 (18/3)	22176.17 (8/7)
Tokyo SE (Topix) (4/1/68)	1805.53	1798.87	1798.05	1752.98	2028.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	3125.91	3114.39	3082.30	3013.44	3423.45 (10/5)	2473.52 (24/1)
MALAYSIA						
KLSE Composite (4/4/86)	598.60	603.76	608.11	605.22	635.02 (29/5)	478.41 (16/1)
NETHERLANDS						
CBS TU.Rtn.Gen.(End 1983)	276.5	278.2	277.8	276.4	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	197.0	198.2	197.9	197.0	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	772.44	771.97	771.18	764.72	792.13 (4/6)	610.45 (21/1)
PHILIPPINES						
Manila Comp (2/1/85)	990.25	984.14	990.31	1001.08	1183.40 (29/5)	582.64 (18/1)
SINGAPORE						
SES All-Singapore (2/4/75)	396.34	396.42	397.06	394.67	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1361.0	1391.0	1445.0	1426.0	1469.0 (5/7)	971.0 (25/2)
JSE Industrial (28/9/78)	3946.0	3969.0	4036.0	3949.0	4036.0 (10/7)	2829.0 (16/1)
SOUTH KOREA						
Korea Comp Ex. (4/1/80)	632.78	621.74	614.15	614.42	697.62 (4/1)	590.57 (22/6)
SPAIN						
Madrid SE (30/12/85)	267.36	264.88	267.54	268.79	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affarsvariden Gen. (1/2/37)	1146.8	1149.8	1139.8	1132.2	1149.8 (11/7)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	762.6	755.0	756.1	749.2	766.1 (31/5)	598.4 (14/1)
SBC General (1/4/87)	628.8	624.1	625.3	619.8	638.0 (31/5)	487.1 (14/1)
TAIWAN						
Weighted Price (30/6/66)	5327.10	5312.32	5456.80	5303.88	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	674.71	688.98	700.19	714.27	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	490.6*	487.3	487.1	484.1	529.2 (17/4)	439.1 (16/1)

**Saturday July 6: Taiwan Weighted Price: 5412.61 Korea Comp Ex. 610.43.

& Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 12 July 1991

	Stocks Traded	Closing Prices	Change on day
Kitano Const	14.5m	2,360	+190
Clarion	7.8m	1,130	+100
Akai Electric ...	7.5m	1,280	+80
Nippon Carbon ..	7.4m	914	+14
Citizen Watch ...	5.9m	1,110	+40
Nihon Nohyaku ..	3.0m	1,950	+300
Daikin Industries	2.5m	1,760	+40
Hitachi Trans	2.5m	1,620	+100
Takuma	2.3m	1,090	+108
Olympus Optical	2.1m	1,380	+30

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AUTHORISED UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	49.95	49.95	53.42	6.50	40080
Gilts & Fixed Int	6	112.2	112.2xd	119.0	9.66	40001
High Inc Equity	6	131.2	134.8xd	143.3	5.93	40002
Worldwide Bond	6	209.2	209.2	221.7	6.77	40003
Capital Growth						
American Growth	6	204.9	204.9	218.9	1.00	40004
Asian Pacific	6	134.9	137.8	146.5	1.07	40005
Assets & Earnings	6	171.6	175.4	186.5	3.10	40006
Capital Reserve Acc	0	105.5	105.5	105.6	7.19	40007
Capital Reserve Inc	0	83.42	83.42	83.47	7.19	47580
Commodity & Energy	6	80.92	80.92	86.54	1.72	40008
1992 Enterprise	6	62.05	62.05	66.36	2.91	46597
Euro Capital Acc	6	88.03	88.03	94.14	1.44	40009
Euro Capital Inc	6	84.10	84.10	89.94	1.45	47581
General	6	167.1	167.1	178.7	2.80	40010
Japan	6	99.82	99.82	106.7	–	40011
Mastertrust	6	89.91	89.91	96.16	2.32	40012
UK Growth Acc	6	153.0	153.0	163.6	2.77	40013
UK Growth Dist	6	98.29	98.29	105.1	2.79	40014
US Emerging Cos	6	68.63	68.63	73.40	–	40015
Income & Growth	6	293.9	293.9	314.3	4.45	40016
Ethical	6	48.52	48.52xd	51.89	3.26	40017
International	6	63.27	63.27	67.66	1.30	46852
Dividend & Growth	6	46.96	48.12xd	51.19	5.86	47871
Global Grth & Sec	6	51.29	51.53	54.81	1.82	44596
Aberforth Unit Trust Managers Ltd (1600)F						
16 Chester St, Edinburgh EH3 7RA 031 220 0733						
UK Small Cos ♥	0	946	946	1006	–	46056
Abtrust Unit Trust Managers Ltd (1200)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580						
Amer Inc & Growth	5¼	31.87	31.87	33.80	2.35	40019
Cash	–	50.50	50.50xd	50.50	11.50	43696
European	5¼	71.89	71.89	76.28	0.30	40025
European Income	5¼	74.10	74.53xd	78.63	1.96	41377
Exempt	1	745.3	745.3xd	769.9	5.31	41379
Exempt Income	3¼	164.4	164.4xd	173.7	4.83	41152

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Bishopsgate Progressive Mgmt Co (1200)F						
15 St James' Place, London SW1A 1NW 071-493 8111						
Progressive Inc	5	£18.74	18.74	19.78	1.17	40168
Progressive Acc	5	£28.39	28.39	29.80	1.17	40169
International Inc	5	£19.91	19.91	21.01	1.41	40170
International Acc	5	£26.46	26.46	27.93	1.41	40171
Can & Foreign Inc	5	231.0	231.0	243.8	0.97	40173
Can & Foreign Acc	5	276.1	276.1	291.4	0.97	40174
Special Sits Inc	5	203.6	203.6	214.9	2.85	40175
Special Sits Acc	5	221.1	221.1	233.4	2.85	40176
PEP Inc	5	133.2	134.8	142.3	1.91	47667
PEP Acc	5	142.2	143.9	151.9	1.91	47668
Growth Inc	5	82.14	82.14	86.69	0.77	45243
Growth Acc	5	82.48	82.48	87.05	0.77	45244
Brewin Dolphin Unit Tst Mgrs Ltd (0905)F						
5 Giltspur St, London EC1A 9DE 071-236 6441						
Dolphin Special Sits	5¼	120.4	120.4xd	128.7	3.62	40177
Dolphin Dividend	5¼	61.95	61.95	66.25	5.94	40178
Dolphin Inc & Gth	5¼	158.4	158.4xd	169.4	5.69	40179
Dolphin UK & Gen	5¼	33.22	33.38	35.70	3.19	46654
Dolphin Fundof Fds	5¼	47.60	49.37	52.80	2.84	46640
Britannia Life Unit Managers Ltd (1200)F						
190 West George St, Glasgow G2 2PA 041-332 3132						
Balanced Growth	6	73.19	74.14	79.29	3.15	40427
Do (Accum)	6	77.51	78.51	83.97	3.15	40428
Service Cos	6	60.30	60.30	64.49	2.45	40433
Do (Accum)	6	63.44	63.44	67.85	2.45	40434
Income Growth	6	42.1	42.13xd	45.06	4.36	40431
Do (Accum)	6	59.49	59.49	63.63	4.36	40432
Higher Yield	6	31.78	31.78xd	33.99	6.49	40429
Do (Accum)	6	40.10	40.10	42.89	6.49	40430
American Gth Inc	6	32.30	32.30	34.54	1.51	40423
Do (Accum)	6	32.91	32.91	35.20	1.51	40424
European Growth	6	25.97	25.97	27.77	1.55	40425
Do (Accum)	6	26.46	26.46	28.30	1.55	40426
Global Bond Inc	6	22.34	22.44	24.00	6.47	46095
Do (Accum)	6	25.81	25.93	27.73	6.47	46096
Managed P'folio Inc	6	24.80	24.88	26.61	–	40147
Do Accum	6	24.80	24.88	26.61	–	40162

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American ♥	5	314.0	314.0	334.9	1.28	41410
(Accum Units) ♥	5	367.3	367.3	391.8	1.28	41411
British	5	781.2	781.2	826.5	6.00	41416
(Accum Units)	5	1250.7	1250.7	1323.2	6.00	41417
European	5	319.8	319.8	340.5	1.55	41418
(Accum Units)	5	342.8	342.8	365.0	1.56	41419
Japan	5	122.6	122.6	130.3	–	41420
(Accum Units)	5	123.5	123.5	131.3	–	41421
New Pacific	5	176.3	176.3	187.4	1.94	46365
(Accum Units)	5	180.5	180.5	191.8	1.94	47984
PEP July 10 ♦	5	130.0	132.4	140.1	3.96	47588
Mngd Equity	5	119.2	121.0xd	128.1	3.63	47589
Mngd Equity Acc	5	126.7	128.6	136.1	3.63	40556
Mngd Cash	5	95.62	95.62xd	100.3	11.38	47585
(Accum Units)	5	113.2	113.2	118.7	11.38	40267
Mngd Fixed Int Acc July 10	5	120.9	120.9	128.0	6.94	42152
Majority Stlg	1	99.60	99.60xd	100.59	11.14	42703
Majority Stlg Acc	1	104.48	104.48	105.51	11.14	46689
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries 0277 227300 Dealing 0277 261010						
International July 1	0	51.24	51.24	51.64	3.45	46906
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
Sun Alliance House, Horsham 0403 56293						
Equity	6	584.3	584.3	624.9	3.51	41423
North America	6	80.35	81.14	86.78	1.06	41424
Far East	6	97.25	98.46	105.3	1.08	41425
W'wide Bond	6	47.87	47.87	50.93	5.86	41426
European	6	66.39	66.74	71.38	1.77	41429
Equity Income	6	68.17	69.07xd	73.87	5.32	41430
Portfolio	6	58.15	58.15	62.19	2.72	41431
Sun Life of Canada Unit Mgrs Ltd (1600)H						
Basingview, Basingstoke, Hants 0800 525725						
American Growth	6	26.93	26.93	28.81	0.48	47795

	Bid Price	Offer Price	Yield Gross	City-line
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American July 10	160.4	164.8	1.52	40368
Managed July 10	143.1	148.4	3.88	40369
Japan July 11	120.7	124.0xd	0.08	40370
Sm Jap Cos July 12	583.0	599.0	0.08	40372
Fidelity Investment Services Ltd				
Mngd Pens P'folio	129.3	133.4	3.65	46885
Robert Fleming Asset Mngmt Ltd				
Am Exempt	£494.61	502.05	1.56	40456
Exempt	£130.41	133.35	3.99	40457
Jap Exempt	£493.17	502.98	0.82	40458
Pacific Exempt	£104.93	107.15	3.00	46888
Contl Euro Exempt	£95.95	97.85	2.27	47674
Indexed Exempt July 11	£125.99	129.13	4.93	46886
Amer Indxd Expt July 11	£107.88	108.96	2.73	47673
Japan Indxd Expt July 11	£65.50	66.82	0.63	47676
Euro Indxd Expt July 11	£95.46	97.39	2.85	47675
O'seas Indxd Expt July 11	£100.64	102.85	2.48	46887
Funds in Court*				
Capital July 3	489.42	493.00	2.49	40505
Gross July 3	173.36	176.77xd	11.03	40506
High Yield July 3	290.47	292.80	7.04	40507
* Restricted to monies under Court control				
Henderson Unit Trust Management Ltd				
Pensions Mngd	52.58	53.65	4.19	40676
INVESCO MIM Management Ltd				
Exempt Funds				
Intl Mngd P'Folio	1240.0	1337.0xd	–	46964
Mngd Pens (Acc)	67.9	72.4	–	41007
Lazard Brothers & Co. Ltd				
Property Jan 3	£2360.0	2675.0	6.00	40777

Century Life Plc
2 Eyre Street Hill, London EC1R 5AE 071-278 4488

Crusader Insurance PLC
PO Box 37, Greenock, Renfrewshire, PA15 4AZ 0475 888000

Assicurazioni GENERALI SpA
117 Fenchurch St, London EC3M 5DY 071-488 0733

Legal & General (Unit Pensions) Ltd
Kingswood House, Kingswood, Tadworth, Surrey 0737 370370

Merchant Investors Assurance Co Ltd
Part of the MI Group
91 Wimpole St, London W1M 7DA

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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	Bid Price	Offer Price	Yield Gross	City-line
N & P Life Assurance Ltd				
4-7 Bedford Row, London, WC1R 4UJ 071-430 2348				
Life Managed Fd	106.1	111.7	–	41924
Pension Managed Fd	104.0	109.5	–	41926
Life Deposit Fd	108.0	113.7	–	41923
Pension Deposit Fd	113.4	119.4	–	41925
National Financial Management Corp PLC				
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539				
Life Funds				
Managed Cautionary	108.3	114.0	–	47150
Managed Growth	136.1	143.3	–	47151
Managed Opportunity	137.7	145.0	–	47152
NFMC Target Financial	100.6	106.2	–	47153
Pension Funds				
Managed Cautionary	118.6	124.9	–	47154
Managed Growth	144.1	151.7	–	47155
Managed Opportunity	138.0	145.3	–	47156
NFMC Target Mngd Pens	1512.8	1592.5	–	47157
National Mutual Life				
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422				
Investor Pension Funds				
Managed	161.9	170.5	–	43141
UK Equity	167.8	176.7	–	43135
Overseas Equity	137.9	145.2	–	43136
Fixed Interest	146.3	154.0	–	43137
Property	127.8	134.6	–	43138
Index Linked	147.4	155.2	–	43139
Deposit	158.1	166.5	–	43140
With Profits CB1	129.7	136.5	–	44128
National Provident Institution				
48 Gracechurch St, London EC3P 3HH 071-623 4200				
Managed	[illegible]	[illegible]		[illegible]

	Bid Price	Offer Price	Yield Gross	City-line
Prosperity Life Assurance Ltd				
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690556				
Initial Equity	150.0	158.5	–	42995
Accum Equity	215.0	227.0	–	43005
Accum Managed	226.0	238.5	–	43006
Accum Five Star	171.5	181.0	–	43011
Accum World	124.5	131.5	–	43013
Accum Lifetime	109.0	109.0	–	47139
Pens Acc Equity	231.0	243.5	–	43025
Pens Acc Managed	281.0	296.5	–	43026
Pens Acc Intl	217.0	229.0	–	43027
Pens Acc Deposit	200.5	211.5	–	43029
Pens Acc Five Star	188.0	198.5	–	43031
Providence Capital Life Assc. Co Ltd				
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888				
UK Equity Acc	221.9	234.1	–	43411
UK Fixed Int Acc	176.3	186.0	–	43412
Intl Equities Acc	178.7	188.6	–	43413
UK Managed Acc	172.9	182.3	–	43414
Property Acc	224.1	236.4	–	43415
Money Acc	129.9	137.1	–	43416
Special Market Acc	144.2	152.2	–	43417
Japan Equity Acc	105.2	111.0	–	46760
North American Acc	109.6	115.7	–	43419
Pacific Acc	98.5	104.0	–	43420
Technology Acc	130.3	137.5	–	43421
Nat Resources Acc	65.2	68.8	–	43422
European Acc	101.5	107.1	–	43424
Residential Prop Acc	96.2	101.5	–	43425
Swiss Equities Acc	34.8	36.8	–	43426
Hong Kong Acc	70.6	74.5	–	43427
UK High Inc Eq Acc	71.5	75.5	–	43428
Int Fixed Interest Acc	58.0	61.2	–	46406
Int Managed Acc	57.1	60.2	–	46407
HIP Managed Acc	118.3	124.7	–	46751
HIP Managed II Acc	100.3	105.8	–	41928
HIP Managed III Acc	107.4	113.2	–	45882
Total Investment Bond				
UK Equity Initial		161.1	–	43429
UK Fixed Int Initial		120.2	–	43430

Royal Heritage Life Assurance Ltd—Contd.

Shield Assurance Ltd

Swiss Life (UK) PLC

CMI Insurance Co Ltd—Contd.

ECU Futures Plc

Hambros Fd Mgrs (CI) Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

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	Bid Price	Offer Price	Yield Gross	City-line
U.S. Treasury Securities Fund Ltd				
Short Term Shares	$766.84		–	45903
Fixed Income Shares	$889.97		–	45904
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Meta Growth	$10.03		–	46000
Yamaichi ISS Fund	$7.48		–	46591
Yamaichi CB Plus Fund	$7.96		–	47335
Thai Inv Fund	$9.43		–	46493
Yamaichi OTC Equity (z)	$9.46		–	47326

IRELAND (SIB RECOGNISED)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
GAM Fund Management Ltd (z)						
29 Kildare Street, Dublin						010 353 1760 630
GAM Universal US Dlr Acc	$–		108.24xd			40339
GAM Universal US Dlr Inc	$–		105.95xd			40340
GAM Universal DM Acc	DM–		120.86xd			40341
GAM Universal DM Inc	DM–		118.23xd			40342
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar	$–		0.97	1.041		43441

IRELAND (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-line
Bank of Ireland Unit Managers Ltd				
Global Scap.	$9.13	9.40	–	43795
European Bond	[illegible]	[illegible]	–	45532
Guardian Portfolio				
Equity/America	$11.19	11.87	–	46343
Equity/Europe	$8.61	9.14	–	46946

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
John Govett – Contd.						
Far East Equity	5½	$10.65	10.65	10.75	1.0	47288
US Smaller Cos	5½	$12.42	12.42	12.54	1.0	47289
European Equity	5½	[illegible]	13.79	13.93	2.0	47290
UK High Income	5	£4.71	4.71xd	4.75	10.79	47291
UK Equity	5½	£4.79	4.79	4.83	3.0	47292

Initial charge may alter for sales in other jurisdictions

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F						
PO Box 63, Bond Street, St. Helier, Jersey						0534 76029
Stlg Fixed Int	5½	£1.162	1.162	1.234	9.70	45259
Offshore High Yield	3½	£1.426	1.426	1.478	12.69	45249
Global Equity Fund	5½	£13.96	13.96xd	14.93	0.63	45260
European Equity	5½	[illegible]	18.44	19.72	1.00	45258
UK Growth (CI) Fund	5½	£4.581	4.581	4.899	2.91	45264
Nth American Eqty	5½	$9.983	9.983	10.641	0.50	45250
Far Eastern Eqty	5½	£10.72	10.89	11.65	0.07	45252
International Mngd	5½	£10.89	10.92xd	11.68	0.59	44066
Intnl. Bond Fund						
Sterling Managed	5½	£10.34	10.34xd	11.02	9.34	45265
US Dollar Managed	5½	$12.48	12.48xd	13.30	6.43	45266
International Currency Fund						
Sterling Managed	5½	£26.66	26.66	28.21		45267
US Dollar Managed	5½	$29.57	29.57	31.29		45268
Sterling	0	£25.29	25.29	25.29	10.56	45269
US Dollar	0	$38.16	38.16	38.16	6.48	45270
Deutschmark	0	DM60.54	60.54	60.54	7.54	45271
Japanese Yen	0	Y4,878	4,878	4,878	6.04	45272
Swiss Franc	0	SFr47.06	47.06	47.06	6.38	45273
Irish Punts	0	I£22.30	22.30	22.30	6.45	40652
INVESCO MIM International (Jersey) Ltd						
PO Box 271, St Helier, Jersey						0534 73114
Jersey Gilt (z)	5¼	[illegible]	0.1710	0.1803	9.15	45451
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey						0534 27561
Lloyds Tst. Gilt	2½	£9.282	9.296xd	9.539	11.11	45393

Dealing daily

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey						0534 606000
Intl Circuit Portfolio	6	£1.035	1.0535	1.1170	1.57	41027
Gilt	3	[illegible]	0.9112xd	0.9397	10.6	45446

Gartmore Indosuez Funds
39 Allee Scheffer L-2520 Lux 010 352 4767492

Wardley Investment Services (Lux) SA (u)
7 rue du Marche-aux-Herbes L-1728 Luxembourg
Dealing 010 352 476812220 Fax. 475569

Target International Fountain Fund

GT Chile Growth Fund Ltd

GT European Warrant Fd Mngrs (Lux) SA

GT Management Plc

Merrill Lynch Guernsey

Mitsubishi Finance International Ltd

Morgan Stanley Japanese Warrant Fund NV

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Bill curve vanishes

THE BANK of England sent two signals to the London money market last week. The first was on Thursday when by providing late assistance via overnight lending to the discount houses the authorities hinted that a cut in bank base rates was likely to be sanctioned on Friday.

This was significant because on previous Thursdays, when the central bank wished to discourage base rate speculation, it lent funds into the following week.

UK clearing bank base lending rate
11 per cent
from July 12, 1991

Thursday's move tended to confirm hopes of base rate cuts, but perhaps a more important signal was provided on Friday. At the same time that the Bank of England cut its dealing rates - prompting an immediate reduction of ½ point to 11 per cent in base rates - it also removed the price differential between band 1 and band 2 bills.

The banding of the bills represents the the time to maturity. Band 1 bills expire within 14 days; band 2 in 15 to 33 days; band 3 in 34 to 63 days; and band 4 in 64 to 91 days. Before Friday morning's early assistance the official dealing rate for band 1 bills was 11⅞ per cent and the rate for band 2 was 11$\frac{13}{16}$ per cent. If dealing in longer dated bills the yield curve would have continued its downward slope.

The last time the authorities dealt in all bands at the same rate was nearly three years ago, but on Friday bills were bought in bands 1 and 2 at 10⅞ per cent. Dealers said that by removing the yield curve the Bank of England had effectively signalled to the market that this was the last in the present round of base rate cuts.

This obviously does not mean that rates have reached there lowest point for ever and a day, but according to market thinking it probably indicates that the Bank of England will be looking to keep rates at 11 per cent for several months.

£ IN NEW YORK

July 12	Close	Previous Close
£ Spot	1.6485-1.6500	1.6045-1.6055
1 month	0.72-0.70pm	0.70-0.68pm
3 months	2.01-1.98pm	1.89-1.86pm
12 months	5.90-5.80pm	5.45-5.35pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY MOVEMENTS

Jul 12	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.4	-21.5
U.S Dollar	67.6	-9.9
Canadian Dollar	106.4	+3.5
Austrian Schilling	108.2	+10.8
Belgian Franc	109.6	-3.3
Danish Krone	106.9	+1.6
D-Mark	115.6	+22.2
Swiss Franc	108.9	+17.4
Dutch Guilder	112.3	+14.5
French Franc	101.2	-14.3
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

OTHER CURRENCIES

[illegible]

CURRENCY RATES

[illegible]

POUND - DOLLAR

[illegible]

CHICAGO

[illegible]

PHILADELPHIA SE £/$ OPTIONS

1.700	-	0.62	1.12	2.29	4.60	6.12	7.17	9.76
1.725	-	0.27	0.64	1.68	7.32	8.21	9.14	11.63

Previous day's open int: Calls 361,367 Puts 280,717 (All currencies)
Previous day's volume: Calls 34,967 Puts 9,818 (All currencies)

POUND SPOT - FORWARD AGAINST THE POUND

Jul 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6025 - 1.6500	1.6490 - 1.6500	0.72-0.70cpm	5.17	1.98-1.95pm	4.77
Canada	1.8450 - 1.8910	1.8900 - 1.8910	0.42-0.34cpm	2.41	1.14-1.01pm	2.27
Netherlands	3.3110 - 3.3300	3.3200 - 3.3300	⅝-⅜cpm	2.03	1½-1¼pm	1.65
Belgium	60.45 - 60.90	60.80 - 60.90	13-9cpm	2.17	29-24pm	1.74
Denmark	11.3685 - 11.4525	11.4425 - 11.4525	1¾-1¼orepm	1.70	4⅝-3½pm	1.42
Ireland	1.0935 - 1.1060	1.1035 - 1.1045	0.13-0.08pm	1.14	0.30-0.20pm	0.91
Germany	2.9455 - 2.9625	2.9475 - 2.9625	⅝-⅜pfpm	2.03	1¾-1¼pm	1.78
Portugal	253.45 - 257.30	256.30 - 257.30	107-173cdis	-6.54	225-318dis	-4.23
Spain	184.30 - 185.45	185.00 - 185.30	14-31cdis	-1.46	53-75dis	-1.38
Italy	2188.75 - 2199.10	2197.00 - 2198.00	par-1liredis	-0.27	2-4dis	-0.55
Norway	11.4660 - 11.5475	11.5375 - 11.5475	1¼-⅝orepm	0.91	2¼-1¼pm	0.58
France	9.9840 - 10.0225	10.0125 - 10.0225	1-¼cpm	1.05	3¼-2¾pm	1.22
Sweden	10.6300 - 10.7025	10.6925 - 10.7025	⅝-⅛orepm	0.77	1½-⅝pm	0.40
Japan	222.80 - 226.00	225.00 - 226.00	¾-⅝ypm	3.66	1¾-1¼pm	3.22
Austria	20.70 - 20.86	20.83 - 20.86	4-3gropm	2.01	9¼-6½pm	1.52
Switzerland	2.5500 - 2.5600	2.5500 - 2.5600	¾-⅝cpm	3.23	1¾-1⅝pm	2.84
Ecu	1.4310 - 1.4390	1.4380 - 1.4390	0.20-0.14cpm	1.42	0.45-0.37pm	1.14

Commercial rates taken towards the end of London trading. Six-month forward dollar 3.50-3.45cpm. 12 Month 5.80-5.70cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6025 - 1.6500	1.6490 - 1.6500	0.72-0.70cpm	5.17	1.98-1.95pm	4.77
Ireland†	1.4550 - 1.4875	1.4865 - 1.4875	0.44-0.39cpm	3.35	1.34-1.24pm	3.47
Canada	1.1465 - 1.1495	1.1475 - 1.1485	0.25-0.28cdis	-2.77	0.70-0.75dis	-2.53
Netherlands	2.0150 - 2.0700	2.0150 - 2.0160	0.51-0.54cdis	-3.13	1.55-1.60dis	-3.13
Belgium	36.85 - 37.85	36.85 - 36.95	8.40-10.40cdis	-3.06	25.00-31.00dis	-3.04
Denmark	6.9335 - 7.1060	6.9375 - 6.9425	1.84-2.14oredis	-3.44	5.45-6.05dis	-3.31
Germany	1.7885 - 1.8390	1.7885 - 1.7895	0.44-0.46pfdis	-3.02	1.34-1.37dis	-3.03
Portugal	155.10 - 157.60	155.10 - 155.20	155-175cdis	-12.76	260-290dis	-7.09
Spain	112.60 - 115.00	112.65 - 112.75	61-64cdis	-6.65	178-186dis	-6.46
Italy	1332.00 - 1365.50	1332.00 - 1332.50	5.80-6.30liredis	-5.45	17.30-18.30dis	-5.34
Norway	6.9950 - 7.1640	6.9950 - 7.0000	2.37-2.67oredis	-4.32	7.15-7.65dis	-4.23
France	6.0700 - 6.2290	6.0700 - 6.0750	2.01-2.06cdis	-4.02	5.29-5.39dis	-3.52
Sweden	6.4730 - 6.6445	6.4825 - 6.4875	2.24-2.49oredis	-4.38	7.05-7.50dis	-4.49
Japan	136.70 - 138.85	136.70 - 136.80	0.16-0.18ydis	-1.49	0.48-0.51dis	-1.45
Austria	12.7750 - 12.9350	12.8050 - 12.8100	3.15-3.60grodis	-3.16	9.70-11.40dis	-3.29
Switzerland	1.5500 - 1.5935	1.5485 - 1.5495	0.24-0.27cdis	-1.98	0.71-0.75dis	-1.89
Ecu	1.1180 - 1.1475	1.1460 - 1.1470	0.37-0.34cpm	3.72	1.07-1.02pm	3.65

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

July.12	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.649	2.950	225.5	10.02	2.555	3.325	2197	1.890	60.85	1.438
$	0.606	1	1.789	136.7	6.076	1.549	2.016	1332	1.146	36.90	0.872
DM	0.339	0.559	1	76.44	3.397	0.866	1.127	744.7	0.641	20.63	0.487
YEN	4.435	7.313	13.08	1000.	44.43	11.33	14.75	9743	8.381	269.8	6.377
F Fr.	0.998	1.646	2.944	225.0	10.	2.550	3.318	2193	1.886	60.73	1.435
S Fr.	0.391	0.645	1.155	88.26	3.922	1	1.301	859.9	0.740	23.82	0.563
H Fl.	0.301	0.496	0.887	67.82	3.014	0.768	1	660.8	0.568	18.30	0.432
Lira	0.455	0.751	1.343	102.6	4.561	1.163	1.513	1000.	0.860	27.70	0.655
C$	0.529	0.872	1.561	119.3	5.302	1.352	1.759	1162	1	32.20	0.761
B Fr.	1.643	2.710	4.848	370.6	16.47	4.199	5.464	3611	3.106	100.	2.363
ECU	0.695	1.147	2.051	156.8	6.968	1.777	2.312	1528	1.314	42.32	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Jul 12	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11¼ - 11	11¼ - 11	11$\frac{3}{16}$ - 11$\frac{1}{16}$	11$\frac{1}{16}$ - 11	10¾ - 10$\frac{11}{16}$	10½ - 10$\frac{11}{16}$
US Dollar	5¾ - 5⅝	6 - 5¾	6$\frac{1}{16}$ - 5$\frac{15}{16}$	6$\frac{3}{16}$ - 6$\frac{1}{16}$	6½ - 6⅜	6$\frac{13}{16}$ - 6$\frac{11}{16}$
Can. Dollar	8¼ - 8	8½ - 8¼	8½ - 8⅜	8⅝ - 8½	8¾ - 8⅝	9⅛ - 8⅞
Dutch Guilder	8⅞ - 8¾	8⅞ - 8¾	9 - 8⅞	9⅛ - 9	9⅛ - 9	9¼ - 9⅛
Swiss Franc	7¾ - 7½	7¾ - 7½	7¾ - 7⅝	7$\frac{13}{16}$ - 7$\frac{11}{16}$	7$\frac{13}{16}$ - 7$\frac{11}{16}$	7$\frac{13}{16}$ - 7$\frac{11}{16}$
D-Mark	8¾ - 8½	8¾ - 8⅝	8⅞ - 8¾	9⅛ - 9	9¼ - 9⅛	9⅜ - 9¼
French Franc	9½ - 9⅜	9½ - 9⅜	9½ - 9⅜	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT LONDON INTERBANK FIXING

(11.00 a.m. July 12) 3 months US dollars; 6 months US Dollars [illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

July.15,1991 , Deposits withdrawn for cash 5 per cent.

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

TOKYO			MILAN		
One month Bills	7⅛	-$\frac{1}{16}$	One month	11$\frac{3}{8}$	-⅛
Three month Bills	7$\frac{3}{32}$	Unch'd	Three month	11$\frac{5}{16}$	-$\frac{1}{16}$
BRUSSELS			DUBLIN		
One month	8$\frac{15}{16}$	-$\frac{1}{16}$	One month	9$\frac{13}{16}$	-⅜
Three month	9⅛	-⅛	Three month	9$\frac{13}{16}$	-⅜
AMSTERDAM					
One month	8.95	-0.11			
Three month	9.03	-0.15			

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

Wimbledon & South West Finance PLC
114 Newgate St, London EC1 7AE 071-606 9485
High Int. Cheque Acc. 11.25 8.44 11.73 -

NOTES - Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	July 12	July 11	July 10	July 9	July 8	July 5	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.78	84.92	84.88	84.94	84.66	84.80	85.88	82.17	127.4	49.18
Fixed Interest	93.79	93.83	93.55	93.57	93.43	93.35	94.84	90.59	105.4	50.53
Ordinary	1925.7	1928.4	1918.1	1905.4	1891.3	1911.8	2014.5	1606.3	2014.5	49.4
Gold Mines	214.0	222.8	222.7	218.4	219.0	216.8	222.8	127.0	734.7	43.5
FT-Act All Share	1193.62	1198.28	1197.17	1189.20	1181.25	1189.05	1232.32	987.46	1238.57	61.92
FT-SE 100	2497.4	2510.5	2508.4	2487.9	2466.8	2484.7	2545.3	2054.8	2545.3	136.9
FT-SE Eurotrack 100	1107.36	1109.88	1109.33	1102.41	1090.75	1098.71	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1152.84	1155.98	1154.87	1147.93	1136.80	1145.27	1192.11	938.62	1192.11	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

(b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for November 1990: 130.0 and for June 1991: 134.1.

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

[illegible]

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JULY 12 1991 US Dollar Index	% chg ($) since 31/12/90	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/90	Gross Div. Yield	THURSDAY JULY 11 1991 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991 High	1991 Low	Year ago (approx)
Australia (69)	142.68	+20.9	128.24	123.33	132.71	123.37	+21.2	5.21	142.43	131.28	124.74	135.77	123.58	147.30	112.74	150.42
Austria (20)	175.75	-10.6	157.97	151.93	163.47	166.21	+8.7	1.66	175.03	161.33	153.29	166.85	166.50	222.37	167.00	271.74
Belgium (49)	126.64	-4.2	113.83	109.46	117.79	115.24	+14.2	5.12	123.92	114.22	108.52	118.12	115.38	151.20	121.73	152.33
Canada (115)	138.93	+6.8	124.87	120.09	129.21	115.49	+5.7	3.38	138.37	127.54	121.18	131.89	115.18	142.27	128.49	140.47
Denmark (37)	248.93	+7.0	223.74	215.19	231.53	234.97	+28.5	1.50	242.91	223.90	212.75	231.55	234.16	270.56	217.74	265.10
Finland (16)	94.34	-8.5	84.80	81.55	87.75	85.36	+8.8	2.82	92.45	85.22	80.97	88.13	85.21	125.15	90.00	134.61
France (113)	126.64	-3.9	113.83	109.47	117.78	120.63	+14.7	3.67	123.54	113.87	108.19	117.75	120.39	152.26	120.60	160.02
Germany (65)	106.72	-4.6	95.92	92.27	99.26	99.26	+14.1	2.26	103.37	95.28	90.54	98.53	98.53	125.35	102.03	139.49
Hong Kong (55)	163.50	+34.2	146.95	141.33	152.08	162.97	+33.6	4.26	162.31	149.61	142.15	154.73	161.84	163.50	119.62	144.49
Ireland (18)	140.46	-5.4	126.25	121.42	130.64	133.10	+13.1	3.84	138.95	128.07	121.69	132.45	134.24	182.46	132.88	187.47
Italy (77)	72.52	-7.4	65.18	62.69	67.45	72.16	+9.4	3.24	70.97	65.42	62.15	67.65	72.19	88.23	70.54	106.00
Japan (474)	128.86	+3.3	115.82	111.39	119.87	111.39	+4.1	0.76	126.80	116.87	111.05	120.88	111.05	146.97	118.35	153.15
Malaysia (68)	225.92	+6.5	203.06	195.29	210.13	241.89	+9.6	2.72	226.80	209.04	198.62	216.18	243.44	247.78	192.83	244.58
Mexico (16)	1092.84	+87.0	982.25	944.67	1016.44	3603.07	+90.9	1.49	1088.30	1003.11	953.13	1037.40	3588.10	1092.84	534.45	523.24
Netherland (31)	132.96	-0.7	119.50	114.93	123.67	122.31	+18.6	4.38	130.59	120.37	114.37	124.49	123.08	145.73	125.70	145.61
New Zealand (13)	48.14	+10.9	43.27	41.62	44.78	45.48	+16.0	7.71	48.48	44.68	42.46	46.21	45.80	54.64	41.18	69.99
Norway (32)	193.12	-5.5	173.58	166.94	179.62	183.42	+12.5	1.60	189.09	174.29	165.60	180.25	183.31	223.24	182.24	249.29
Singapore (38)	191.84	+20.4	172.42	165.83	178.42	154.66	+21.2	2.21	191.97	176.94	168.13	182.99	155.48	208.25	151.63	207.57
South Africa (61)	253.76	+38.7	228.08	219.35	236.01	171.46	+25.9	3.19	255.76	235.74	223.98	243.79	174.16	255.76	173.00	178.12
Spain (55)	142.02	+1.2	127.65	122.76	132.09	121.25	+19.4	4.42	137.49	126.72	120.41	131.05	119.78	171.12	131.51	181.12
Sweden (26)	191.87	+20.3	172.46	165.86	178.47	184.20	+38.7	2.45	188.56	173.80	165.14	179.74	185.00	204.12	146.60	230.52
Switzerland (58)	90.82	+2.1	81.63	78.51	84.48	87.22	+24.1	2.21	87.72	80.85	76.83	83.63	86.41	100.67	82.17	109.77
United Kingdom (240)	164.21	-0.9	147.60	141.94	152.72	147.60	+16.0	4.87	160.85	148.26	140.86	153.31	148.26	187.44	156.27	173.29
USA (526)	153.94	+15.5	138.36	133.07	143.18	153.94	+15.5	3.14	152.65	140.70	133.70	145.52	152.65	158.24	125.95	148.34
Europe (837)	132.08	-1.9	118.67	114.13	122.80	121.25	+16.2	3.93	128.89	118.80	112.88	122.87	121.24	151.52	125.50	155.05
Nordic (111)	184.77	+10.2	166.07	159.72	171.85	169.08	+29.8	1.94	180.92	166.76	158.45	172.46	169.10	200.81	155.55	215.67
Pacific Basin (717)	130.12	+4.8	116.95	112.48	121.02	113.09	+5.7	1.11	128.20	118.17	112.28	122.21	112.77	145.92	117.86	152.61
Euro-Pacific (1554)	131.20	+1.9	117.93	113.41	122.03	117.13	+9.8	2.24	128.80	118.72	112.79	122.77	116.93	147.66	121.29	154.01
North America (641)	152.93	+15.0	137.45	132.21	142.26	151.35	+14.9	3.15	151.69	139.81	132.86	144.62	150.13	157.04	125.91	147.76
Europe Ex. UK (597)	112.61	-2.5	101.22	97.36	104.76	105.93	+16.4	3.17	109.67	101.08	96.07	104.56	105.56	129.80	106.85	142.57
Pacific Ex. Japan (243)	142.46	+23.0	128.04	123.16	132.51	127.97	+23.5	4.38	142.12	131.00	124.49	135.49	127.98	145.66	111.40	145.34
World Ex. US (1746)	133.33	+2.9	119.84	115.26	124.02	118.51	+10.3	2.29	131.04	120.78	114.78	124.92	118.35	148.16	122.32	154.01
World Ex. UK (2032)	136.88	+8.4	123.03	118.33	127.33	127.77	+11.8	2.34	135.08	124.51	118.31	128.78	127.14	145.77	120.06	148.65
World Ex. So. Af. (2211)	138.51	+7.0	124.50	119.75	128.84	129.31	+12.0	2.60	136.55	125.86	119.60	130.17	128.76	148.86	122.92	150.67
World Ex. Japan (1798)	146.12	+9.3	131.34	126.32	135.93	139.66	+16.3	3.47	144.24	132.95	126.34	137.52	138.04	152.83	126.69	151.14
The World Index (2272)	139.28	+7.3	125.19	120.40	129.56	129.67	+12.2	2.81	137.35	126.60	120.29	130.93	129.16	149.01	123.28	150.83

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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The following constituent changes took place during the week ending 12/7/91: Deletions: Bundaberg Sugar (Australia) and Ciments Francais (France).
Name changes: Syarikat Telekom Malaysia to Telekom Malaysia Bhd. (Malaysia) and Taisho Marine & Fire to Mitsui Marine & Fire (Japan).

BASE LENDING RATES

	%		%		%
ABN Bank	11	Comm. Bk.of London Plc	11	McDonnell Douglas Bnk	11
Adam & Company	11.5	Co-operative Bank	11	Midland Bank	11
Allied Trust Bank	11	Coutts & Co	11	Mount Banking	11
AIB Bank	11.5	Cyprus Popular Bk	11	NatWestminster	11
● Henry Ansbacher	11	Dunbar Bank PLC	11.5	Northern Bank Ltd	11.5
B & C Merchant Bank	11	Duncan Lawrie	11.5	Nykredit Mortage Bank	12
Bank of Baroda	11.5	Equatorial Bank plc	11.5	Provincial Bank PLC	14
Banco Bilbao Vizcaya	11	Exeter Bank Limited	11½	Roxburghe Bank Ltd	12.5
Bank of Cyprus	11	Financial & Gen. Bank	12	Royal Bk of Scotland	11
Bank of Ireland	11	First National Bank Plc.	14	● Smith & Williamson Secs.	11
Bank of India	11.5	● Robert Fleming & Co.	11	Standard Chartered	11
Bank of Scotland	11	Robert Fraser & Ptnrs.	11½	TSB	11
Banque Belge Ltd	11	Girobank	11	Unibank plc	11
Barclays Bank	11	● Guinness Mahon	11.5	● United Bk of Kuwait	11
Benchmark Bank	11.5	● Hambros Bank	11	Unity Trust Bank Plc	11
Brit Bk of Mid East	11	Hampshire Trust Plc	13.5	Western Trust	11.5
● Brown Shipley	11.5	Heritable & Gen Inv Bnk.	11.5	Westpac Bank Corp.	11.5
CL Bank Nederland	11	● Hill Samuel	11	Whiteaway Laidlaw	11
Citibank NA	11	C. Hoare & Co.	11.5	Yorkshire Bank	11
City Merchants Bank	11.5	Hongkong & Shanghai	11		
Clydesdale Bank	11	● Leopold Joseph & Sons	11		
		Lloyds Bank	11		
		Meghraj Bank Ltd	11		

● Members of British Merchant Banking & Securities Houses Association.

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 45p per minute peak and 34p off peak, inc VAT

AMERICANS

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ELECTRICITY

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LONDON SHARE SERVICE

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRANSPORT – Contd

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‡ Price at time of suspension
- ‡ Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for *dividend at a future date.*
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1 β	640xd	......
Finlay Pkg. 5p β	24	-11.1
Holt (Jos) 25p β	1975	......
Helton Hldgs γ	43	......

IRISH

Cap. 8½% Ln. 1991	£97⅞	-2.3
9pc Cap Ln. 1996	£97¾	0.3
Fin. 13% 97/02	£114¼	......
Arnotts	165	......
IRG	128½	......
United Drug	170	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	40
BOC Grp.	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons.	45
Comm Union	44
Courtaulds	32
Eurotunnel	50
FKI	6
FNFC	20
Gen Accident	48
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd	39
ICI	80
Ladbroke	22
Legal & Gen	36
Lex Service	20
Lloyds Bank	30
Lucas Inds	13
Marks & Spencer	21
Midland Bk	18
Nat West Bk	27
P & O Dfd	51
Racal Elect	18
RHM	28
Rank Org Ord	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	40

Property	
Brit Land	30
Control Secs	3
Land Securities	45
MEPC	40
Mountleigh	8½

Oils	
Ariva Petm	3
Brit Petroleum	28
Burmah Castrol	49
Conroy Petm	10
Gaelic Res	1
Premier	6
Shell	41
Tesixar Res	2
Ultramar	30

Mines	
Lonrho	21
RTZ	48

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Manpower Income (Section: Industrials)

Deletions: Harcourt Group (Papers)

Security Tag Systems (Electricals)

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4:00 pm prices July 12

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	9¼	AAR Corp	0.48	0.03	15	307	14⅞	14⅝	14⅞	+¼
18¾	14½	A L Labs A	0.16	0.01	17	352	16	15⅞	15⅞	
55½	40⅞	AMP Inc	1.44	0.03	20	918	53	52¼	52⅞	+⅛
68⅝	44¼	AMR				7943	65¼	64½	64¾	−1¼
2⅝	1¼	ARX			1	70	1⅝	1½	1⅝	
55	41½	ASA	3.00	0.06	15	384	53⅞	53¼	53⅞	+⅜
54	39¼	Abbott Lab x	1.00	0.02	22	5121	51⅛	50⅜	51½	+⅝
14½	9⅞	Abitibi Pr x	0.50	0.04	26	10	13⅝	13⅝	13⅝	
11⅝	10⅜	ACM Gvt In x	1.26	0.11		573	11⅛	11	11⅛	
9¾	8⅜	ACM GvOpp x	1.01	0.11		89	9¼	9⅛	9⅛	
9¼	8¼	ACM Gvt Sp x	1.01	0.11		257	9	8⅞	8⅞	−⅛
11	9⅞	ACM Gvt Se	1.26	0.12		900	10⅜	10⅜	10⅜	
8⅞	7⅝	ACM Man x	1.01	0.12		195	8¼	8⅛	8⅛	−⅛
12⅞	11½	ACM Mangd x	1.35	0.11		179	12⅛	12	12⅛	
7½	4¾	Acme Cleve	0.40	0.06	14	61	6⅞	6⅛	6⅛	−⅛
5	3½	Acme Elect			38	20	4	3⅞	3⅞	
40	22¾	Acuson			24	352	32⅞	32⅝	32⅞	−⅛
18½	14¼	Adams Expr	0.73	0.04	0	69	18⅛	18	18	
20⅛	18	Adobe12Pf	2.40	0.13		145	18⅞	18½	18½	−⅛
9⅛	6¾	Adobe Res			20	81	7	6⅞	6⅞	−⅛
38⅛	18	Ad Micro				284	35⅞	35½	35⅞	−⅛
14¼	4⅝	Ad Micro P	3.00	0.23	14	4701	13	12¾	13	+⅛
5⅛	2¾	Advest Grp	0.18	0.04	5	93	4⅞	4¾	4⅞	+⅛
49⅛	33⅞	Aetna Lf	2.76	0.06	6	1244	42½	41¾	42⅜	+½
10⅝	6⅝	Ahm A	0.24	0.03	35	316	8⅞	8⅝	8⅞	+⅜
20¼	12	Ahmanson	0.88	0.05	10	1367	17⅞	17¼	17½	+½
12¾	2⅞	Aileen Inc			16	226	12¼	11¾	12	−¼
74½	51⅞	Air Pr Chm x	1.44	0.02	15	1571	67¼	66⅞	66⅞	+⅜
26⅝	18⅝	Airbne Frt	0.30	0.01	15	129	26	25⅝	25⅞	+⅜
18⅞	12½	Airgas Inc			71	4	15¼	15⅛	15	−⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chg
[illegible]										
21¼	14⅛	Xtra 1.94			10		20½	20½	20¾	
24⅞	14¼	Xtra Corp	0.72	0.03	241	23	24⅛	24⅛	24⅛	-⅛
24¼	21⅛	Yankee Egy	1.80	0.07	12	16	22½	22¼	22½	
1½	⅜	Zapata			0	188				
9⅝	6⅛	ZenithElec			2	434	6¾	6⅝	6⅝	-⅛
18½	12	Zenith Nat	1.00	0.06	74	34	18⅛	17⅞	17⅞	-⅛
6¼	4½	Zenix Inc	0.99	0.16		z100	6⅛	6⅛	6	
15⅛	10⅞	Zero Corp	0.40	0.03	15	59	14⅝	14¼	14⅜	+⅛
41⅜	29½	Zurn Ind	0.88	0.02	14	155	35¾	35½	35⅝	-⅛
13½	10¼	Zweig Fund x	1.12	0.09		191	12⅝	12½	12⅝	
10	8½	Zweig Total x	0.95	0.10		340	u10	9⅞	10	+⅛

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices July 12

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4:00 pm prices July 12

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

MONDAY INTERVIEW

Mandarin view of the market

Alan Lord, chief executive of Lloyd's, speaks to **Richard Lapper** and **Peter Martin**

'It is my judgment that this is a clean market'

Mr Alan Lord is clear about one thing – he is not, as he frequently reiterates, "a market man". Indeed the chief executive of Lloyd's, now 62 and due to retire next June, retains the measured and slightly mandarin air acquired during 27 years in the Civil Service, as he surveys the prospects of the deeply troubled Lloyd's insurance market.

In 1986 Mr Lord was a surprise choice for the top post at the Lloyd's Corporation, the body which regulates and provides back-up services for the market, after an unhappy spell as managing director of Dunlop, the tyre manufacturer.

Nevertheless his combination of public and private sector skills has served Mr Lord well at Lloyd's where he has steered through a programme of modernisation. The corporation's finances have been improved, its debt reduced and a start made on the task of reducing expenses and streamlining management systems.

"Alan has brought some stability and ramped up the professionalism and calibre of the corporation's officers," says one colleague.

The framework of self-regulation, by which the corporation rather than any government department clamps down on misdemeanours by underwriters and agencies on the market, introduced in 1982 after a number of scandals jolted Lloyd's in the early 1980s, has been improved.

"It is my judgment that this is a clean market – we have had only one disciplinary case in the last 18 months and that was trivial," says Mr Lord.

Although Lloyd's is bedevilled by litigation between warring Names – the wealthy individuals whose capital backs the market – and intermediaries, only one of the six groups of Names taking legal action is directly challenging the Lloyd's Corporation itself.

And most of the alleged malpractices in that case, which involves 33 members of syndicates formerly managed by Oakeley Vaughan, took place before the 1982 act came into force. Mr Lord believes Lloyd's legal position in the case, launched in the High Court in April, is solid, and is determined to fight it "inch by inch".

He accepts though that bad publicity stemming from the case and related lobbying efforts by some of the Names involved has damaged the market's reputation.

"It is no good making the distinction between pre-1982 and post-1982 for the general public and to those people who write newspapers for the general public," he says.

But although Mr Lord's patient and bureaucratic style may have been effective in some respects, he also bears the stigma of any regulator. "He is the ultimate bogey," says one Lloyd's man. "The view from the floor would not be flattering," adds another insider at the corporation. Moreover Mr Lord's tendency to take the long view and his measured style sometimes make him appear remote from the market's difficulties.

Names might interpret that distance as complacency. For example, the chief executive firmly rejects talk of crisis, and suggests that the media has blown up what are in essense typical trading problems.

"One of things that creates a sense of crisis about a trading loss at Lloyd's," he says, "is that it is public knowledge which syndicates people are on – you can then produce a picture of a Virginia Wade or a Tony Jacklin or some other household Name and see how they are affected." By comparison, says Mr Lord, "it is not customary to say" how much such people might have "lost in British & Commonwealth", for example.

The poor results of 1988, the market's first overall loss since 1967, are a direct product of the "soft" pricing of the last three to four years, and a run of catastrophe losses – ranging from the Piper Alpha oil rig explosion to Hurricane Hugo. The weakness of the dollar – in which Lloyd's syndicates receive up to 70 per cent of their income – aggravated difficulties.

Recently losses have fed through from pollution and asbestosis claims in the United States decades after the inception of policies.

"It can't be a crisis for a business to lose in one year rather less than it made in the previous year let alone the year before," says Mr Lord.

Even in 1988 10,000 of Lloyd's 28,000 Names made profits. Serious losses of £50,000 or more for example were concentrated among Names who were members of syndciates specialising in catastrophe reinsurance business. "There are a few unfortunate individuals with whom I have great sympathy ... some Names have just hit the bad ones in spades," Mr Lord says.

In the longer term he is clear about the need for reform, to reduce the costs of doing business at Lloyd's and to improve the market's competitiveness.

He fully supports the work of the Lloyd's taskforce, a group of senior market figures and advised by McKinsey, the managament consultancy. It will touch on all aspects of the ways Lloyd's does business, including the controversial issues of unlimited liability – the principle that the Name is liable for any insurances down to his most insignificant personal possessions.

However, Mr Lord's pronouncments lack the sense of urgency imparted by the market's chairman, Mr David Coleridge and other prominent market figures recently.

Mr Lord rules out any suggesting of incorporation – converting Lloyd's and the various agencies that manage syndciates and Names into one company – which he believes would reduce its attraction as an insurance market.

But he accepts that "mutualisation" – whereby all Names would collectively pay for losses incurred by Names above an agreed maximum – is a possibility. This could be achieved by setting up a reinsurance company by the Lloyd's Corporation or by making individual reinsurance (or stop-loss) policies compulsory.

But he warns that many players would be reluctant to accept it and a referendum might be necessary among Lloyd's members.

"A lot of people join Lloyd's strictly because they want to play for themselves – American Names will tell you if they wanted to join a unit trust they would have joined one."

Mr Lord accepts that Lloyd's needs to improve its marketing skills to win back some of the specialised commercial insurance and reinsurance business that it has lost over the past two decades to its continental and north American company rivals.

The corporation will also continue to adopt a more aggressive approach towards marketing Lloyd's overseas, although Mr Lord warns that the way business is organised at Lloyd's – agencies owe their chief responsibilities to individual Names rather than to any corporate interest – makes it difficult to impose "strategic direction".

More generous tax treatment from the Inland Revenue would help. Continental reinsurers in particular can establish a special category of catastrophe reserves which they can offset against tax. Lloyd's and UK companies would benefit from the same treatment. "We're going to have to crack this question of pre-tax reserving or the whole of the insurance industry in this country will suffer," he says.

Vitriolic criticisms of Lloyd's in newspaper editorials also helped to persaude the government to reject Llloyd's efforts to win tax relief for Names. And Mr Lord concedes that the bid for tax relief was always going to be difficult. "Politically it is very difficult to give special tax relief to people who are perceived by the great majority of people as being wealthy," he says.

And he also knows how difficult the task of wringing tax concessions can be. Referring to his own experience at the Inalnd Revenue in the 1970s, "Having sat on the other side of a boardroom table at Somerset House I know what we are up against."

Even Mr Lord's optimism is tempered by his innate conservatism. He says he is a "great deal more confident about Lloyd's than I was five years ago" because "the hard times of the last few years have taught people a number of lessons and have prepared them to look very widely at the way they do business."

But would Mr Lord join Lloyd's as a Name? "The answer is no and the reason for that is that I shall be 63 and you should join Lloyd's for a 20-year run. Although I have every expectation of living until I am 85 I am not going to bet on it."

PERSONAL FILE

1929 Born in Rochdale.
1948-50 Educated St John's College, Cambridge.
1950 Joins Inland Revenue.
1962 Inland Revenue Policy Unit.
1969 Board of Inland Revenue.
1971 Deputy chairman, Inland Revenue.
1973 Principal financial officer, Department of Trade and Industry.
1975 Second permanent secretary, Treasury.
1977 Director corporate planning, Dunlop.
1980-84 Group managing director, Dunlop.
1986- Deputy chairman and chief executive, Lloyd's.

What Cleveland can teach the US

MICHAEL PROWSE
on America

Driving from the airport, you first see Cleveland as a bunch of skyscrapers sticking up out of a grim 19th-century landscape of factories, cast iron bridges and railway tracks. It is easy to believe that this was a cradle of the American industrial revolution and a home for magnates such as John D Rockefeller and Andrew Carnegie. Coming from Washington, however, you wonder what possible relevance this museum-piece can have for today's bustling service economy. You hanker for the capital's marble monuments, lush foliage and self-confident chatter.

But first impressions are often deceptive. In important respects, this Ohio city on the shores of Lake Erie can claim to represent the future for America. In every previous post-war downturn, Cleveland suffered worse than the nation as a whole. This was notjust a reflection of its reliance on heavy industry: Cleveland's companies seemed dismally to underperform their industries nationally. In the early 1980s, for example, local manufacturing employment fell by about a fifth – more than double the national rate of contraction.

This time Cleveland seems almost nonchalant in the face of a national downturn. "It's hard to tell that the recession even happened," says Mr Joseph Gross, a manager at LTV Steel. "Things have slowed down but house prices are still going up and everybody is talking about opportunities." Others are a little less bullish: some city services have been cut, marginal companies have failed, unemployment is up. But there are many signs of continuing vitality. Society Bank, a big local financial institution, will soon move into a gleaming 60-storey tower in the rehabilitated downtown district. An array of construction projects, including a $350m sports stadium and an extensive harbour redevelopment are in train.

Economic statistics, moreover, appear to confirm that Cleveland's decades of underperformance are over. In the year to April, manufacturing employment fell only 2 per cent in Cleveland compared with 4.5 per cent nationally. Non-manufacturing employment rose by 1.1 per cent compared with a national fall of 0.1 per cent. A manufacturing production index for Ohio shows a much shallower decline than in the nation at large.

What explains Cleveland's new vitality? As in much of the mid-west, the "no boom, no bust" argument carries weight. In the 1980s, this capital-intensive region suffered the double blows of recession and chronic overvaluation of the dollar. There was no real estate boom, as on the east and west coasts, because the upturn was so delayed. Business confidence has thus not been undermined by the pricking of a property bubble. At the same time, the decline of the dollar since 1985 and the dramatic improvement in export profitability has transformed the outlook for many local companies. Mr Ken Mayland, chief economist at Society Bank, also stresses the benefit to Ohio of much foreign – particularly Japanese – investment, such as the huge Honda car plant at Marysville.

But Cleveland is also doing a lot to help itself. The intense economic distress of the early 1980s prompted a much greater emphasis on partnership and co-operation than is common in US communities. "In the 1970s, adversity ruled," says Mr Richard Shatten, executive director of Cleveland Tomorrow, a committee of chief executives formed in 1982 to address local economic and social problems. "It was management versus unions, suburbs versus downtown and business leaders versus elected officials." He argues that Cleveland began to make progress once everybody started pulling together.

One of Cleveland's crucial resolves was that "manufacturing matters". Many US communities swallowed the convenient fiction that a shift into low value-added services is a sign of increasing economic sophistication. Mr Shatten regards this attitude as "dead wrong". Cleveland Tomorrow – against the trend of the 1980s – saw that it had to rebuild an outdated manufacturing base and become competitive in world markets. Recognising that much prodding would be necessary to accelerate change, it launched the Cleveland Advanced Technology Programme (Camp). This makes aggressive attempts to persuade local companies to upgrade their technology, offers technical training, and promotes industrially-relevant R&D at local universities.

Mr Stephen Gage, Camp's president, draws an analogy between his efforts and the US agricultural extension programme of the 1920s and 1930s. He argues that US farms became the most efficient in the world only because federal agents aggressively sold the benefits of new technology. He believes a similar effort is now needed in manufacturing where most small and medium-sized companies are failing to reap the benefits of technological progress. Washington, he laments, is planning to spend $30bn on a space station but will invest only $12m in a handful of programmes like Cleveland's. "Where are our priorities?" he asks.

Cleveland is still beset with problems. In the inner city, schools are in disarray; poverty rates are high and rising. But the spirit of co-operation forged in the 1980s appears to be producing results. Downtown is being transformed. The importance of manufacturing is understood as are the limitations of relying on Darwinian competition in free markets. With its priorities clear, Cleveland should do well in a decade when the US's economic task is to repay debts by expanding exports. But then anything ought to be possible in the city that gave the world Superman.

Greatest political paradox

Dr Abel Aganbegyan is one of the great survivors of perestroika. He it was who, in the early 1980s, began pushing for a version of reform communism which would allocate to prices a much larger role than they had hitherto played, and to managers more power than they had earlier enjoyed. In the early years of Mikhail Gorbachev's rule, it was above all his ideas, and those of Dr Leonid Abalkin, which were dominant: communism could be reformed, and (in Dr Aganbegyan's view) capitalism surpassed.

Dr Aganbegyan was in London yesterday, with Dr Abalkin: both were speaking at the European Bank of Reconstruction and Development's seminar on eastern Europe and the Soviet Union. Nothing of the old assumptions were left: on the contrary, both are convinced that only the market economy could save their country, and their reservations are only those of men who know how parlous and weak the government they serve now is.

But it is not just the problem of their government. In the course of his talk, Dr Aganbegyan mentioned that Soviet citizens, on average, spend 76 per cent of their income on daily necessities, mainly food: there is, he said, no market in housing, no market in pensions, in insurance, in health – or in any of the other various claims on westerners' income. He was describing a people whose psychology and daily existence is bounded by subsistence within an economy which is rapidly failing to provide the means of subsistence – a fearful, so far docile, people who have had almost no experience of the choices and responsibilities for areas of their own life which westerners take for granted that they control and shape.

They have been rendered thus by the power structure which for decades has told them that this is the way they must live. That structure is seeking change, since it no longer wishes to continue running a system of more or less complete state provision. Yet the politicians, at least at union level, are those who rose to power under that system, and have not yet broken with it, or the party which controlled it. As Dr Abalkin said at the EBRD conference, the government needs political consensus among the republics and among the various political forces in the country to implement radical reform – and there is not such a consensus. The Communist rulers, to put it simply, are too frightened of the people to do anything other than make concessions to them – the classic posture of a party for which terror is no longer an option but on which democracy has conferred no mandate.

The Communist rulers are simply too frightened of the people to do anything other than make concessions to them

This has not, of course, meant that there have been no efforts to change. Mr Mario Nuti of the European Commission said at the conference that there have been no less than nine plans for economic reform since Dr Abalkin's in November 1989 – and they have tended to become more radical. Especially in the past month, Soviet legislation has been similarly radical. Bills have cascaded through the Supreme Soviet – on privatisation, on demonopolisation, on foreign investment – which have been explicitly designed to construct a legislative floor for a property-owning democracy. In his press conference on friday, Mr Gorbachev pledged allegiance to private property, privately owned land and an opening to the world market in which the Soviet Union would play by "the rules of the game".

But radicalism is not enough. When Mr Gorbachev addresses the Group of Seven leaders at their economic summit on Wednesday, it does not, finally, matter what he says: it matters what judgment they make of his ability to deliver.

And where the movement towards radicalism in the plan which the Soviet government is willing to endorse has been growing ever sharper, at the same time the ability of that government to put through any kind of plan, including one which returned to the old administrative command system, is now approaching zero.

In the past week, Mr Gorbachev agreed with the 10 most amenable republics an anti-crisis plan which largely agrees only to come back to the most difficult questions, and which gives away the central control mechanism of a federal tax, allowing the republics to contribute to the union budget "at their own discretion". Mr Victor Gerashchenko, the chairman of the State Bank, admitted last week that he had no control of the republican banks, which in turn have no control over the 2,000 commercial banks which are now operating in the economy.

Hence the forecasts now being made within and outside of the Soviet Union that Mr Gorbachev, at the height of his radicalism and at the very edge of renouncing, publicly, his communist beliefs, may be at the lower limit of his power. His very efforts to persuade the west over this past week that all is under control at home has made it the more transparent that he can only get a semblance of political unity at the cost of giving away the last shreds of coherence. He will face the Group of Seven in Lancaster House on Wednesday with another vast panorama of change: a sweeping invitation to them to let their imaginations dwell on the consequences of absorbing the Soviet Union into the world market.

It is, no question, a dizzying prospect. It will, there is less and less question, happen. But this really may be the last time when it could possibly happen in an orderly and peaceful fashion: or, as possibly, it may be that chance has already gone.

The Group of Seven will, this week, be meeting the greatest paradox in world politics: a man who is arguably the most important political leader of his day – and the one with the least real power in the world. How are they to deal with that?

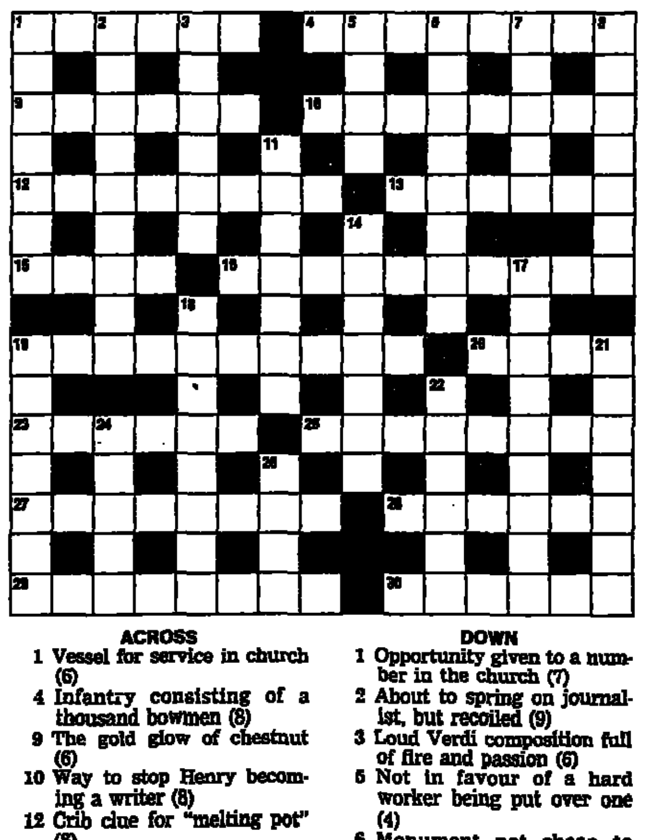
John Lloyd

Ian Davidson is away. He will resume his column in September.

JOTTER PAD

CROSSWORD

No.7,594 Set by DANTE



ACROSS

1 Vessel for service in church (6)
4 Infantry consisting of a thousand bowmen (8)
9 The gold glow of chestnut (6)
10 Way to stop Henry becoming a writer (8)
12 Crib clue for "melting pot" (8)
13, 25 Hot stuff! (6,8)
15 Lead astray Helen's mother (4)
16 Oddly comic place associated with a criminal, perhaps (10)
19 Used by riders – but not riding breeches (6,4)
20 Find the exact place (4)
23 One side of Glasgow (6)
25 See 13
27 First man to devise an outlet in wrought iron (8)
28 Entertainment that's a nice change to mother (6)
29 Growing area, one with a shrub (8)
30 Tasted, perhaps, and expressed an opinion (6)

DOWN

1 Opportunity given to a number in the church (7)
2 About to spring on journalist, but recoiled (9)
3 Loud Verdi composition full of fire and passion (6)
5 Not in favour of a hard worker being put over one (4)
6 Monument not cheap to build (8)
7 A girl goes inside to get help (5)
8 One hears it being broken (7)
11 Locate unpleasant smell, but this won't cure it (7)
14 A false impression (7)
17 Seconds are tense (9)
18 League match (8)
19 Material for firing (7)
21 Do one's best, though it isn't easy (3,4)
22 Run the second edition (6)
24 He has a pound remaining – for pressing his suit? (5)
26 One gentle about to become a Hindu ascetic (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 27.

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